UDR, Inc.
Form 10-Q
May 12, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)**
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-10524

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

Maryland	**54-0857512**
(State or other jurisdiction of incorporation of organization)	*(I.R.S. Employer Identification No.)*

1745 Shea Center Drive, Suite 200,
Highlands Ranch, Colorado 80129
(Address of principal executive offices) (zip code)

(720) 283-6120
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

The number of shares of the issuer s common stock, $0.01 par value, outstanding as of May 1, 2008, was 128,232,516.

UDR, Inc.

FORM 10-Q

INDEX

		PAGE
	PART I FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (unaudited)	2
	Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007	2
	Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007	3
	Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007	4
	Consolidated Statement of Stockholders Equity for the three months ended March 31, 2008	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 4.	Controls and Procedures	34
	PART II OTHER INFORMATION	
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6.	Exhibits	42
	Signatures	43

Computation of Ratio of Earnings to Fixed Charges
Rule 13a-14(a) Certification of the Chief Executive Officer
Rule 13a-14(a) Certification of the Chief Financial Officer
Section 1350 Certification of the Chief Executive Officer
Section 1350 Certification of the Chief Financial Officer

Table of Contents

Item 1. FINANCIAL STATEMENTS

UDR, INC.

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

	March 31, 2008	December 31, 2007
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 4,757,850**	$ 4,131,881
Less: accumulated depreciation	**(874,645)**	(822,831)
	3,883,205	3,309,050
Real estate under development (net of accumulated depreciation of $798 and $963)	**349,454**	343,768
Real estate held for disposition (net of accumulated depreciation of $19,614 and $547,965)	**55,436**	927,964
Total real estate owned, net of accumulated depreciation	**4,288,095**	4,580,782
Cash and cash equivalents	**60,187**	3,219
Restricted cash	**9,082**	6,295
Deferred financing costs, net	**34,327**	34,136
Notes receivable	**219,807**	12,655
Investment in unconsolidated joint ventures	**47,801**	48,264
Funds held in escrow from IRC Section 1031 exchanges pending the acquisition of real estate	**348,297**	56,217
Other assets	**60,765**	54,636
Other assets real estate held for disposition	**1,844**	4,917
Total assets	**$ 5,070,205**	$ 4,801,121
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	**$ 1,146,532**	$ 910,611
Secured debt real estate held for disposition	**4,915**	227,325
Unsecured debt	**2,027,800**	2,364,740
Real estate taxes payable	**15,209**	8,808
Accrued interest payable	**26,953**	27,999
Security deposits and prepaid rent	**26,729**	21,897
Distributions payable	**47,777**	49,152
Deferred fees and gains on the sale of depreciable property	**28,803**	28,690
Accounts payable, accrued expenses, and other liabilities	**38,100**	51,989
Other liabilities real estate held for disposition	**3,183**	28,468

Total liabilities	**3,366,001**	3,719,679
Minority interests	**107,549**	62,049
Stockholders equity:		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 at December 31, 2007)	**46,571**	46,571
5,400,000 shares 6.75% Series G Cumulative Redeemable issued and outstanding (5,400,000 at December 31, 2007)	**135,000**	135,000
Common stock, $0.01 par value; 250,000,000 shares authorized		
129,360,822 shares issued and outstanding (133,317,706 at December 31, 2007)	**1,294**	1,333
Additional paid-in capital	**1,520,670**	1,620,541
Distributions in excess of net income	**(103,799)**	(783,238)
Accumulated other comprehensive loss	**(3,081)**	(814)
Total stockholders equity	**1,596,655**	1,019,393
Total liabilities and stockholders equity	**$ 5,070,205**	$ 4,801,121

See accompanying notes to consolidated financial statements.

Table of Contents

UDR, Inc.

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

	Three Months Ended March 31,	
	2008	**2007**
REVENUES		
Rental income	**$ 125,565**	$ 121,406
Non-property income:		
Other income	**5,518**	5,012
Total revenues	**131,083**	126,418
EXPENSES		
Rental expenses:		
Real estate taxes and insurance	**13,499**	14,484
Personnel	**11,642**	11,117
Utilities	**6,979**	7,018
Repair and maintenance	**6,696**	6,534
Administrative and marketing	**3,238**	3,050
Property management	**3,453**	3,339
Other operating expenses	**1,004**	311
Real estate depreciation and amortization	**52,435**	44,470
Interest (net of $5.1 million gain on debt extinguishment in 2008)	**35,791**	39,726
General and administrative	**9,769**	9,892
Other depreciation and amortization	**929**	722
Total expenses	**145,435**	140,663
Loss before minority interests and discontinued operations	**(14,352)**	(14,245)
Minority interests of outside partnerships	**(59)**	(30)
Minority interests of unitholders in operating partnerships	**1,126**	1,034
Loss before discontinued operations, net of minority interests	**(13,285)**	(13,241)
Income from discontinued operations, net of minority interests	**738,544**	45,073
Net income	**725,259**	31,832
Distributions to preferred stockholders Series B		(2,911)
Distributions to preferred stockholders Series E (Convertible)	**(931)**	(931)
Distributions to preferred stockholders Series G	**(2,278)**	
Net income available to common stockholders	**$ 722,050**	$ 27,990
Earnings per weighted average common share basic and diluted:		

Loss from continuing operations available to common stockholders, net of minority interests		**$**	**(0.13)**	$	(0.13)
Income from discontinued operations, net of minority interests		**$**	**5.61**	$	0.34
Net income available to common stockholders		**$**	**5.48**	$	0.21
Common distributions declared per share		**$**	**0.3300**	$	0.3300
Weighted average number of common shares outstanding	basic		**131,665**		134,511
Weighted average number of common shares outstanding	diluted		**131,665**		134,511

See accompanying notes to consolidated financial statements.

Table of Contents

UDR, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except for share data)
(Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Operating Activities		
Net income	**$ 725,259**	$ 31,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**53,364**	65,014
Net gains on the sale of depreciable property	**(767,146)**	(37,070)
Net gains on the sale of land	**(175)**	
Minority interests	**48,842**	1,726
Amortization of deferred financing costs and other	**2,575**	1,787
Amortization of deferred compensation	**1,744**	
(Refunds)/prepayments on income taxes	**(932)**	325
Changes in operating assets and liabilities:		
Decrease in operating assets	**609**	1,420
Decrease in operating liabilities	**(37,341)**	(28,689)
Net cash provided by operating activities	**26,799**	36,345
Investing Activities		
Proceeds from sales of real estate investments, net	**1,451,047**	59,111
Repayment of note receivable		4,000
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(513,134)**	(60,600)
Development of real estate assets	**(23,978)**	(17,280)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(31,859)**	(50,042)
Capital expenditures non-real estate assets	**(4,794)**	(680)
Investment in unconsolidated joint venture	**463**	(5,929)
Purchase deposits on pending real estate acquisitions	**(1,021)**	(1,752)
Issuance of notes receivable	**(7,152)**	
Increase in funds held in escrow from IRC Section 1031 exchanges pending the acquisition of real estate	**(292,080)**	(25,373)
Net cash provided by/(used in) investing activities	**577,492**	(98,545)
Financing Activities		
Payments on secured debt	**(67,625)**	(1,173)
Proceeds from the issuance of unsecured debt	**240,000**	150,000
Proceeds from the issuance of secured debt	**12,408**	6,508
Payments on unsecured debt	**(267,440)**	(92,255)

Net (repayment)/proceeds of revolving bank debt	**(309,500)**	48,900
Payment of financing costs	**(2,977)**	(1,725)
Proceeds from the issuance of common stock	**617**	617
(Repayment)/proceeds of the investment of performance based programs	**(326)**	126
Distributions paid to minority interests	**(2,962)**	(3,165)
Distributions paid to preferred stockholders	**(3,209)**	(3,842)
Distributions paid to common stockholders	**(43,987)**	(42,258)
Repurchase of common stock	**(102,322)**	
Net cash (used in)/provided by financing activities	**(547,323)**	61,733
Net increase/(decrease) in cash and cash equivalents	**56,968**	(467)
Cash and cash equivalents, beginning of period	**3,219**	2,143
Cash and cash equivalents, end of period	**$ 60,187**	$ 1,676
Supplemental Information:		
Interest paid during the period	**$ 42,041**	$ 50,894
Non-cash transactions:		
Conversion of operating partnership minority interests to common stock (7,150 shares in 2008 and 510,264 shares in 2007)	**53**	4,373
Issuance of restricted stock awards	**3,925**	2,449
Issuance of note receivable upon the disposition of real estate	**200,000**	
Secured debt assumed with the acquisition of properties, net of fair value adjustment	**68,728**	41,318

See accompanying notes to consolidated financial statements.

Table of Contents

UDR, Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands, except share data)
(Unaudited)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Income	Loss	Total
ance, December 31, 7	**8,203,812**	**$ 181,571**	**133,317,706**	**$ 1,333**	**$ 1,620,541**	**$ (783,238)**	**$ (814)**	**$ 1,019,3**
nprehensive Income								
income						725,259		725,2
er comprehensive me:								
ealized loss on vative financial ruments							(2,267)	(2,2
nprehensive income						**725,259**	**(2,267)**	**722,9**
ance of common restricted shares			422,466	4	2,355			2,3
chase of common es			(4,386,500)	(43)	(102,279)			(102,3
ustment for version of minority rests of unitholders perating partnerships			7,150		53			
mmon stock ributions declared 3300 per share)						(42,611)		(42,6
erred stock ributions clared-Series E 3322 per share)						(931)		(9
erred stock ributions clared-Series G 3300 per share)						(2,278)		(2,2
ance, March 31, 8	**8,203,812**	**$ 181,571**	**129,360,822**	**$ 1,294**	**$ 1,520,670**	**$ (103,799)**	**$ (3,081)**	**$ 1,596,6**

See accompanying notes to consolidated financial statements.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED)

1. CONSOLIDATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

UDR, Inc. is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP) (collectively, UDR). As of March 31, 2008, there were 166,163,186 units in the Operating Partnership outstanding, of which 157,513,626 units or 95% were owned by UDR and 8,649,560 units or 5% were owned by limited partners. As of March 31, 2008, there were 5,542,200 units in the Heritage OP outstanding, of which 5,228,898 units or 94% were owned by UDR and 313,302 units or 6% were owned by limited partners. The consolidated financial statements of UDR include the minority interests of the unitholders in the Operating Partnership and the Heritage OP. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes appearing in UDR s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on February 26, 2008.

In the opinion of management, the interim unaudited consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial position at March 31, 2008, and results of operations for the interim periods ended March 31, 2008 and 2007. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year.

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

UDR adopted the Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, UDR recognized no material adjustments to liabilities related to unrecognized income tax benefits. At the adoption date of January 1, 2007, UDR s taxable REIT subsidiaries had $538,000 of net unrecognized tax benefits, which would favorably impact our effective tax rate if recognized. At March 31, 2008, UDR had $413,000 of net unrecognized tax benefits. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2004 2007 remain open to examination by the major taxing jurisdictions to which we are subject. UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of March 31, 2008, UDR had $69,000 accrued for interest and $0 accrued for penalties.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) that become effective for our fiscal year beginning January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurement. SFAS 157 applies to other accounting pronouncements that

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), that delays the effective date of SFAS 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities, as of January 1, 2008, did not have a material impact on our financial position or operations. Fair value measurements identified in FSP 157-2 will be effective for our fiscal year beginning January 1, 2009. We are currently assessing the impact of SFAS 157 for nonfinancial assets and liabilities on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures related to derivatives and hedging activities. SFAS 161 will require disclosures relating to: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedge items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 must be applied prospectively and will be effective for our fiscal year beginning January 1, 2009, although early adoption is allowed. We are currently assessing what impact the adoption of SFAS 161 will have on our financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination, recognizing assets acquired and liabilities assumed arising from contingencies, and determining what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We are currently assessing what impact the adoption of SFAS 141R will have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the non-controlling interest with disclosure of both amounts on the consolidated statement of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently assessing what impact the adoption of SFAS 160 will have on our financial statements.

Real Estate Sales

The Company accounts for sales of real estate in accordance with FASB Statement No. 66, Accounting for Sales of Real Estate (SFAS 66). For sale transactions meeting the requirements for full accrual profit recognition, we remove the related assets and liabilities from our consolidated balance sheet and we record the gain or loss in the period the transaction closes. For sales transactions that do not contain continuing involvement or if the continuing involvement with the property is limited by the terms of the sales contract, we recognize profit at the time of sale. For sales

transactions that do not meet the full accrual sale criteria due to continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting rather than as a full accrual sale, based on the nature and extent of our continuing involvement.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sales to entities in which we retain or otherwise own an interest are accounted for as partial sales under paragraphs 33-36 of SFAS 66. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer. In transactions accounted by us as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

2. REAL ESTATE HELD FOR INVESTMENT

At March 31, 2008, there are 148 communities with 41,164 apartment homes classified as real estate held for investment. The following table summarizes the components of real estate held for investment *(dollars in thousands):*

	March 31, 2008	December 31, 2007
Land and land improvements	**$ 1,258,175**	$ 1,130,016
Buildings and improvements	**3,313,503**	2,832,546
Furniture, fixtures, and equipment	**184,670**	169,319
Construction in progress	**1,502**	
Real estate held for investment	**4,757,850**	4,131,881
Accumulated depreciation	**(874,645)**	(822,831)
Real estate held for investment, net	**$ 3,883,205**	$ 3,309,050

3. INCOME FROM DISCONTINUED OPERATIONS

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS 144) requires, among other things, that the primary assets and liabilities and the results of operations of UDR s real properties which have been sold or are held for disposition, be classified as discontinued operations and segregated in UDR s Consolidated Statements of Operations and Consolidated Balance Sheets. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale which are expected to close within the next twelve months.

For purposes of these interim unaudited financial statements, SFAS 144 results in the presentation of the primary assets and liabilities and the net operating results of those properties sold or classified as held for disposition through March 31, 2008, as discontinued operations for all periods presented. SFAS 144 does not have an impact on net income available to common stockholders. SFAS 144 only results in the reclassification of the operating results of all properties sold or classified as held for disposition through March 31, 2008, within the Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets for March 31, 2008 and December 31, 2007.

For the three months ended March 31, 2008, UDR sold 84 communities, one commercial unit, one parcel of land, and 22 condominiums from two communities with a total of 640 condominiums. UDR recognized after-tax gains for financial reporting purposes of $767.1 million on these sales. At March 31, 2008, UDR had two communities with a total of 544 apartment homes and a net book value of $15.8 million, and two communities with a total of 577 condominiums and a net book value of $39.6 million included in real estate held for disposition. For the three months ended March 31, 2007, UDR sold two communities and eight condominiums from one community with a total of 320 condominiums, and one parcel of land. We recognized after-tax gains for financial reporting purposes of $37.1 million on these sales. The results of operations for

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these properties are classified on the Consolidated Statements of Operations in the line item titled Income from discontinued operations, net of minority interests.

In conjunction with the sale of 84 properties in March 2008, UDR received a note in the amount of $200 million. The note matures on March 31, 2014, may be pre-paid fourteen months from the date of the note, bears interest at a fixed rate of 7.5% per annum and is secured by a pledge and security agreement and a guarantee from the buyer s parent company.

UDR has elected Taxable REIT Subsidiary (TRS) status for certain of its corporate subsidiaries, primarily those engaged in condominium conversion and development activities. For the three months ended March 31, 2008 and 2007, UDR recognized income tax benefit of $1.3 million and $4.2 million, respectively, of which UDR allocated an income tax benefit of $126,000 and an income tax provision of $102,000 to discontinued operations. These amounts are included in the income from discontinued operations, net of minority interests in the accompanying Consolidated Statements of Operations.

The following is a summary of income from discontinued operations for the periods presented, *(dollars in thousands):*

	March 31,	
	2008	**2007**
Rental income	**$ 40,006**	$ 62,046
Non- property income	**183**	
	40,189	62,046
Rental expenses	**15,203**	25,317
Property management fee	**1,100**	1,706
Real estate depreciation		19,690
Interest	**2,579**	4,468
Other expenses		132
	18,882	51,313
Income before net gain on the sale of depreciable property and minority interests	**21,307**	10,733
Net gain on the sale of depreciable property	**767,146**	37,070
Income before minority interests	**788,453**	47,803
Minority interests on income from discontinued operations	**(49,909)**	(2,730)
Income from discontinued operations, net of minority interests	**$ 738,544**	$ 45,073

4. JOINT VENTURES

Consolidated Development Joint Venture

In June 2006, we completed the formation of a development joint venture that will invest approximately $138 million to develop one apartment community with 298 apartment homes in Marina del Rey, California. UDR is the financial partner and is responsible for funding the costs of development and receives a preferred return from 7% to 8.5% before our partner receives a 50% participation. Our initial investment was $27 million. Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, this venture has been consolidated into UDR s financial statements. Our joint venture partner is the managing partner as well as the developer, general contractor, and property manager. The project is currently expected to be completed in the third quarter of 2008. Our project costs as of March 31, 2008 were $129.6 million.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Joint Venture

In January 2008, UDR and an unaffiliated partner formed a joint venture which owns and operates a recently completed 371 apartment home community in Orlando, Florida. Under FASB Interpretation No. 46, this venture has been consolidated into UDR s financial statements. UDR receives 100% interest until the return of all capital. Our initial investment was $50.1 million. Our investment at March 31, 2008 was $50.1 million.

Unconsolidated Joint Ventures

As of March 31, 2008, UDR had investments in the following unconsolidated development joint ventures which are accounted for under the equity method of accounting:

UDR is a partner in a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the project that involves building a 430 home high rise apartment building with ground floor retail. Our initial investment was $5.7 million. The project is currently expected to be completed in the fourth quarter of 2010. Our investment at March 31, 2008, and December 31, 2007, was $8.8 million and $8.1 million, respectively.

UDR is a partner in a joint venture which will develop 274 apartment homes in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in the fourth quarter of 2008. At closing, we owned 49% of the project. Our initial investment was $10.0 million. Our investment at March 31, 2008 and December 31, 2007 was $8.5 million and $8.9 million, respectively.

In January 2007, UDR and an unaffiliated partner formed a joint venture which owns and operates a recently completed 23-story, 166 apartment home high rise community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the project (subject to a $34 million mortgage). Our initial investment was $11.8 million. Our investment at March 31, 2008 and December 31, 2007 was $11.0 million and $11.2 million, respectively.

In November 2007, UDR and an unaffiliated partner formed a joint venture which owns and operates various properties located in Texas. On the closing date, UDR sold nine operating properties, consisting of 3,690 units, and contributed one property under development to the joint venture. The property under development will have 302 units and is expected to be completed in the third quarter of 2008. UDR contributed cash and property equal to 20% of the fair value of the properties. The unaffiliated partner contributed cash equal to 80% of the fair value of the properties comprising the venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at March 31, 2008, and December 31, 2007 was $19.5 million and $20.1 million, respectively. In addition, at March 31, 2008 UDR had a note receivable of $13.2 million from the joint venture which is included in Notes receivable on the Consolidated Balance Sheet.

In accordance with EITF No. 03-13, the cash flows of the Texas joint venture assets have been classified as a component of continuing operations on the Consolidated Statement of Operations as UDR will recognize significant direct cash flows from the disposed properties over the duration of the venture arrangement.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. SECURED DEBT

Secured debt on continuing and discontinued operations, which encumbers $1.8 billion or 35% of UDR s real estate owned based upon book value ($3.4 billion or 65% of UDR s real estate owned is unencumbered) consists of the following as of March 31, 2008 (*dollars in thousands*):

	Principal Outstanding		Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities
	March 31, 2008	December 31, 2007	2008	2008	Encumbered 2008
Fixed Rate Debt					
Mortgage notes payable	**$ 365,042**	**$ 324,059**	5.51%	4.3	17
Tax-exempt secured notes payable	**18,240**	**18,230**	5.58%	16.8	2
Fannie Mae credit facilities	**582,484**	**583,071**	5.94%	5.2	21
Total fixed rate secured debt	**965,766**	**925,360**	5.77%	5.1	40
Variable Rate Debt					
Mortgage notes payable	**136,431**	**124,023**	3.84%	2.6	3
Tax-exempt secured note payable		**7,770**	n/a	n/a	n/a
Fannie Mae credit facilities	**49,250**	**80,783**	3.64%	9.1	10
Total variable rate secured debt	**185,681**	**212,576**	3.78%	4.3	13
Total secured debt	**$ 1,151,447**	**$ 1,137,936**	5.45%	5.0	53

Approximate principal payments due during each of the next five calendar years and thereafter, as of March 31, 2008, are as follows *(dollars in thousands):*

Year	Fixed Rate Maturities	Variable Rate Maturities	Total Secured Maturities
2008	$ 9,499	$	$ 9,499
2009	35,742	99,016	134,758
2010	223,087		223,087

2011	111,734		111,734
2012	234,739		234,739
Thereafter	350,965	86,665	437,630
	$ 965,766	$ 185,681	$ 1,151,447

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. UNSECURED DEBT

A summary of unsecured debt as of March 31, 2008 and December 31, 2007 is as follows *(dollars in thousands):*

	March 31, 2008	December 31, 2007
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due July 2012(a)	**$**	$ 309,500
Borrowings outstanding under an unsecured term loan due February 2010(b)	**240,000**	
Senior Unsecured Notes Other		
4.50% Medium-Term Notes due March 2008		200,000
8.50% Monthly Income Notes due November 2008	**29,081**	29,081
4.25% Medium-Term Notes due January 2009	**50,000**	50,000
6.50% Notes due June 2009	**200,000**	200,000
3.90% Medium-Term Notes due March 2010	**50,000**	50,000
3.625% Convertible Senior Notes due September 2011(c)	**250,000**	250,000
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
6.05% Medium-Term Notes due June 2013	**125,000**	125,000
5.13% Medium-Term Notes due January 2014	**200,000**	200,000
5.50% Medium-Term Notes due April 2014(d)	**147,500**	150,000
5.25% Medium-Term Notes due January 2015(d)	**201,880**	250,000
5.25% Medium-Term Notes due January 2016(d)	**83,260**	100,000
8.50% Debentures due September 2024	**54,118**	54,118
4.00% Convertible Senior Notes due December 2035(e)	**250,000**	250,000
Other	**156**	158
	1,980,995	2,008,357
Unsecured Notes Other		
ABAG Tax-Exempt Bonds due August 2008	**46,700**	46,700
Unsecured Notes Premiums & Discount		
Premium on $50 million Medium-Term Notes due March 2010	**306**	344
Premium on $250 million Medium-Term Notes due January 2015(d)	**275**	343
Discount on $150 million Medium-Term Notes due April 2014(d)	**(476)**	(504)
	105	183
Total Unsecured Debt	**$ 2,027,800**	$ 2,364,740

(a)

UDR has a $600 million unsecured revolving credit facility that matures on July 26, 2012. The terms of the $600 million credit facility provide that UDR has the right to increase the credit facility to $750 million under certain circumstances. Based on UDR s current credit ratings, the $600 million credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points. Under a competitive bid feature and for so long as UDR maintains an Investment Grade Rating, UDR has the right to bid out 50% of the commitment amount under the $600 million credit facility and can bid out 100% of the commitment amount once per quarter.

(b) During the three months ended March 31, 2008, UDR borrowed $240 million in the form of a two-year unsecured term loan from a consortium of banks. As of March 31, 2008, UDR had one interest rate swap

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreement associated with borrowings under the term loan with an aggregate notional value of $200 million under which UDR pays a fixed rate of interest and receives a variable rate of interest on the notional amount. The interest rate swap effectively changes UDR s interest rate exposure on $200 million of these borrowings from a variable rate to a weighted average fixed rate of approximately 3.61%. The remaining $40 million has a variable interest rate, which was 3.91% at March 31, 2008 *(see Note 8 Financial Instruments).*

(c) At any time on or after July 15, 2011, prior to the close of business on the second business day prior to September 15, 2011, and also following the occurrence of certain events, the notes will be convertible at the option of the holder. Upon conversion of the notes, UDR will deliver cash and common stock, if any, based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 trading day observation period. The initial conversion rate for each $1,000 principal amount of notes is 26.6326 shares of our common stock, subject to adjustment under certain circumstances. In connection with the issuance of the 3.625% convertible senior notes, UDR entered into a capped call transaction with respect to its common stock. The convertible note and capped call transaction, both of which expire September 2011, must be net share settled. The maximum number of shares to be issued under the convertible notes is 6.7 million shares, subject to certain adjustment provisions. The capped call transaction combines a purchased call option with a strike price of $37.548 with a written call option with a strike price of $43.806. These transactions have no effect on the terms of the 3.625% convertible senior notes by effectively increasing the initial conversion price to $43.806 per share, representing a 40% conversion premium. The net cost of $12.6 million of the capped call transaction was included in stockholders equity.

(d) During the three months ended March 31, 2008, UDR redeemed medium term notes with a notional amount of $67.4 million for $62.3 million, recognizing a gain of approximately $5.1 million. This gain was recorded as a reduction to interest expense during the period.

(e) Prior to December 15, 2030, upon the occurrence of specified events, the notes will be convertible at the option of the holder into cash and, in certain circumstances, shares of UDR s common stock at an initial conversion price of approximately 35.2988 shares per $1,000 principal amount of notes. On or after December 15, 2030, the notes will be convertible at any time prior to the second business day prior to maturity at the option of the holder into cash, and, in certain circumstances, shares of UDR s common stock at the above initial conversion rate. The initial conversion rate is subject to adjustment in certain circumstances.

7. EARNINGS PER SHARE

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

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted earnings per share for the periods presented, *(dollars in thousands, except per share data):*

	Three Months Ended March 31,	
	2008	**2007**
Numerator for basic and diluted earnings per share		
Net income available to common stockholders	**$ 722,050**	$ 27,990
Denominator:		
Denominator for basic earnings per share		
Weighted average common shares outstanding	**132,666**	135,376
Non-vested restricted stock awards	**(1,001)**	(865)
	131,665	134,511
Effect of dilutive securities:		
Employee stock options and non-vested restricted stock awards, and convertible debt		
Denominator for diluted earnings per share	**131,665**	134,511
Basic and diluted earnings per share	**$ 5.48**	$ 0.21

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

If the operating partnership units were converted to common stock, the additional shares of common stock outstanding for the three months ended March 31, 2008 and March 31, 2007, would be 8,963,140 and 8,202,258 weighted average common shares, respectively.

At March 31, 2008, if the measurement periods had ended on that date, no Series C, D or E Out-Performance Partnership Shares would have been issued had each Program terminated on that date. Accordingly, no additional operating partnership units would have been issued at that date *(see Note 10 Commitments and Contingencies*, for a discussion of UDR s Out-Performance Programs).

At March 31, 2007, if the measurement periods had ended on that date, Series C and D Out-Performance Partnership Shares would have been issued if each Program terminated on that date. Accordingly, 571,126 and 650,855 operating partnership units, respectively, would have been issued had the measurement periods ended on that date; however, those units have been excluded in the calculation of diluted earnings per share because their effect would be anti-dilutive.

8. FINANCIAL INSTRUMENTS

UDR accounts for its derivative instruments in accordance with SFAS No 133 *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* At March 31, 2008, UDR s derivative financial instruments include swap agreements on two of our unconsolidated development joint ventures in which UDR has a 49% interest as well as one interest rate swap agreement that is designated as a cash flow hedge with a variable interest rate feature on UDR s term loan. These swaps are qualifying cash flow hedges for financial reporting purposes. For derivative instruments that qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings during the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of UDR s derivative instrument is reported on the Consolidated Balance Sheet at its current fair value. Estimated fair values for interest rate swaps rely on prevailing market interest rates. The fair value amount should not be viewed in isolation, but rather in relation to the value of the underlying hedged transaction and investment and to the overall reduction in exposure to adverse fluctuations in interest rates. The interest rate swap agreement is designated with a portion of the principal balance and term of a specific debt obligation. The interest rate swap involves the periodic exchange of payments over the life of the related agreement. Amounts received or paid on the interest rate swap is recorded on an accrual basis as an adjustment to the related interest expense of the outstanding debt based on the accrual method of accounting. The related amount payable to and receivable from counterparties are included in other liabilities and other assets, respectively.

The following table presents the fair value of UDR s derivative financial instrument outstanding, based on external market quotations, as of March 31, 2008 *(dollars in thousands)*:

Notional Amount	Strike Rate	Type of Contract	Effective Date	Contract Maturity	Fair Value
Unsecured Debt Term Loan:					
$ 200,000	2.76%	Swap	03/03/08	02/01/10	$ 1,771

During the quarter ended March 31, 2008, UDR recognized $2.3 million of unrealized loss on derivative financial instruments in comprehensive income and no income/loss in net income related to the ineffective portion of the hedged instruments. In addition, UDR recognized a $1.8 million derivative financial instrument liability on the Consolidated Balance Sheet.

Effective January 1, 2008, UDR adopted SFAS 157, which defines fair value based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

Level 1 Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company s derivative contract is the only asset or liability that is measured and recognized at fair value using the SFAS 157 hierarchy. The derivative contract uses the Level 2 hierarchy and is recorded in Other Liabilities in the Consolidated Balance Sheet for $1.8 million as of March 31, 2008.

9. OTHER COMPREHENSIVE LOSS

Other comprehensive loss consists of unrealized losses from derivative financial instruments on unconsolidated development joint ventures in which UDR has a 49% interest as well as an interest rate swap agreement on UDR s term loan. The difference between net income and total comprehensive income is due to the fair value accounting for these interest rate swaps. Total other comprehensive loss for the three months ended March 31, 2008 and 2007, was $2.3 million and $0, respectively.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

UDR is committed to completing its wholly owned real estate under development, which has an estimated cost to complete of $289.3 million at March 31, 2008.

UDR is committed to completing its development joint venture projects, which have an estimated cost to complete of $161.0 million at March 31, 2008. The estimated cost to complete consists of $8.4 million related to a consolidated joint venture and $152.6 million related to two unconsolidated joint ventures in which UDR owns 49% and one unconsolidated joint venture in which UDR owns 20%. These joint ventures are expected to be completed at various times between the third quarter of 2008 and the fourth quarter of 2010.

UDR has entered into four contracts to purchase apartment communities upon completion of their development. Provided that the developer meets certain conditions, UDR will purchase these communities for an aggregate of approximately $166 million. These apartment communities are expected to be completed at various times between the third quarter of 2008 and the third quarter of 2010.

Contingencies

Series C Out-Performance Program

In May 2005, the stockholders of UDR approved a new Out-Performance Program and the first series of new Out-Performance Partnership Shares under the program are the Series C Out-Performance Units (the Series C Program) pursuant to which certain executive officers and other key employees of UDR (the Series C Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance III, LLC, a Delaware limited liability company (the Series C LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series C Out-Performance Partnership Shares or Series C OPPSs). The purchase price for the Series C OPPSs was determined by the Compensation Committee of UDR s board of directors to be $750,000, assuming 100% participation, and was based upon the advice of an independent valuation expert. UDR s performance for the Series C Program will be measured over the 36-month period from June 1, 2005 to May 30, 2008.

The Series C Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series C LLC as holder of the Series C OPPSs will receive (for the indirect benefit of the Series C Participants as holders of interests in the Series C LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, common stock equivalents and OP Units); and

iii. dividing the number obtained in clause (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of common stock for the 20 trading days immediately preceding the valuation date.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Series C OPPSs, the number determined pursuant to (ii) above is capped at 1% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series C Participants will forfeit their entire initial investment.

Based on the results through March 31, 2008, no Series C OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series C OPPSs to be issued will not occur until May 30, 2008, and the number of Series C OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series C OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series C OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Series D Out-Performance Program

In February 2006, the board of directors of UDR approved the Series D Out-Performance Program (the Series D Program) pursuant to which certain executive officers of UDR (the Series D Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance IV, LLC, a Delaware limited liability company (the Series D LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series D Out-Performance Partnership Shares or Series D OPPSs). The Series D Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series D LLC has agreed to sell 830,000 membership units to certain members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $830,000 for the Series D OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert. The Series D Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2006 and ending December 31, 2008.

The Series D Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series D LLC as holder of the Series D OPPSs will receive (for the indirect benefit of the Series D Participants as holders of interests in the Series D LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and

iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days immediately preceding the valuation date.

For the Series D OPPSs, the number determined pursuant to clause (ii) above is capped at 1% of market capitalization.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series D Participants will forfeit their entire initial investment.

Based on the results through March 31, 2008, no Series D OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series D OPPSs to be issued will not occur until December 31, 2008, and the number of Series D OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series D OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series D OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Series E Out-Performance Program

In February 2007, the board of directors of UDR approved the Series E Out-Performance Program (the Series E Program) pursuant to which certain executive officers of UDR (the Series E Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance V, LLC, a Delaware limited liability company (the Series E LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series E Out-Performance Partnership Shares or Series E OPPSs). The Series E Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series E LLC has agreed to sell 805,000 membership units to certain members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $805,000 for the Series E OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert. The Series E Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2007 and ending December 31, 2009.

The Series E Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series E LLC as holder of the Series E OPPSs will receive (for the indirect benefit of the Series E Participants as holders of interests in the Series E LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and

iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days

immediately preceding the valuation date.

For the Series E OPPSs, the number determined pursuant to clause (ii) above is capped at 0.5% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series E Participants will forfeit their entire initial investment.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Based on the results through March 31, 2008, no Series E OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series E OPPSs to be issued will not occur until December 31, 2009, and the number of Series E OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series E OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series E OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Litigation and Legal Matters

UDR is subject to various legal proceedings and claims arising in the ordinary course of business. UDR cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. UDR believes 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.

11. REPORTABLE SEGMENTS

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131), requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments performance. UDR s chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

UDR owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR s apartment communities are rental income and net operating income (NOI). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. UDR s chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

UDR s two reportable segments are same communities and non-mature/other communities:

Same communities represent those communities acquired, developed, and stabilized prior to March 31, 2007, and held as of March 31, 2008. A comparison of operating results from the prior year is meaningful as 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 held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-mature/other communities represent those communities that were acquired or developed in 2007 and 2008, sold properties, redevelopment properties, properties classified as real estate held for disposition, condominium conversion properties, joint venture properties, properties managed by third parties, and the non-apartment components of mixed use properties.

Executive management evaluates the performance of each of our apartment communities on a same community and non-mature/other basis, as well as individually and geographically. This is consistent with the aggregation criteria of SFAS 131 as each of our apartment communities generally have similar economic characteristics, facilities, services, and tenants. Therefore, UDR s reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR s total revenues during the three months ended March 31, 2008 and 2007.

Certain reclassifications have been made to prior year amounts to conform to current year presentation. These reclassifications primarily represent presentation changes related to discontinued operations as described in Note 3, Income from Discontinued Operations. The accounting policies applicable to the operating segments described above are the same as those described in Note 1, Summary of Significant Accounting Policies, in UDR s Annual Report on Form 10-K for the year ended December 31, 2007. The following table details rental income and NOI for UDR s reportable segments for the three months ended March 31, 2008 and 2007, and reconciles NOI to net income per the Consolidated Statement of Operations *(dollars in thousands)*:

	Three Months Ended March 31,	
	2008	**2007**
Reportable apartment home segment rental income:		
Same communities:		
Western Region	**$ 50,754**	$ 47,591
Mid-Atlantic Region	**26,124**	24,768
Southeastern Region	**25,751**	25,397
Southwestern Region	**4,532**	4,298
Non-mature communities/Other	**58,410**	81,398
Total segment and consolidated rental income	**$ 165,571**	$ 183,452

	Three Months Ended March 31,	
	2008	**2007**
Reportable apartment home segment net operating income (NOI):		
Same communities:		
Western Region	**$ 35,966**	$ 32,493
Mid-Atlantic Region	**18,028**	16,931
Southeastern Region	**16,542**	16,088
Southwestern Region	**2,971**	2,724
Non-mature communities	**34,807**	47,696
Total segment and consolidated NOI	**108,314**	115,932
Reconciling items:		
Non-property income	**5,701**	5,012

Depreciation and amortization	**(53,364)**	(65,014)
Interest	**(38,370)**	(44,194)
General and administrative and property management	**(14,322)**	(14,937)
Other operating expenses	**(1,004)**	(311)
Net gain on the sale of land and depreciable property	**767,146**	37,070
Minority interests	**(48,842)**	(1,726)
Net income per the Consolidated Statement of Operations	**$ 725,259**	$ 31,832

Table of Contents

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table details the assets of UDR s reportable segments for the three months ended March 31, 2008 and the year ended December 31, 2007 *(dollars in thousands)*:

Reportable apartment home segment assets:	**March 31, 2008**	**December 31, 2007**
Same communities:		
Western Region	**$ 1,827,219**	$ 1,820,519
Mid-Atlantic Region	**658,822**	646,468
Southeastern Region	**731,623**	727,951
Southwestern Region	**149,049**	148,358
Non-mature communities/Other	**1,816,439**	2,609,245
Total segment assets	**5,183,152**	5,952,541
Accumulated depreciation	**(895,057)**	(1,371,759)
Total segment assets net book value	**4,288,095**	4,580,782
Reconciling items:		
Cash and cash equivalents	**60,187**	3,219
Restricted cash	**9,082**	6,295
Deferred financing costs, net	**34,327**	34,136
Notes receivable	**219,807**	12,655
Investment in unconsolidated joint ventures	**47,801**	48,264
Funds held in escrow from IRC Section 1031 exchanges pending the acquisition of real estate	**348,297**	56,217
Other assets	**60,765**	54,636
Other assets real estate held for disposition	**1,844**	4,917
Total consolidated assets	**$ 5,070,205**	$ 4,801,121

Capital expenditures related to our same communities totaled $14.2 million and $19.3 million for the three months ended March 31, 2008 and 2007, respectively. Capital expenditures related to our non-mature/other communities totaled $17.7 million and $30.7 million for the three months ended March 31, 2008 and 2007, respectively.

Markets included in the above geographic segments are as follows:

i. Western Orange Co., San Francisco, Los Angeles, Monterey Peninsula, Seattle, San Diego, Inland Empire, Portland, and Sacramento.

ii. Mid-Atlantic Metropolitan DC, Richmond, Baltimore, Norfolk, and Other Mid-Atlantic.

iii. Southeastern Tampa, Orlando, Nashville, Jacksonville, and Other Florida.

iv. Southwestern Phoenix, Dallas, and Austin.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such statements included in this Report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates,
- the failure of acquisitions to achieve anticipated results,
- possible difficulty in selling apartment communities,
- the timing and closing of planned dispositions under agreement,
- competitive factors that may limit our ability to lease apartment homes or increase or maintain rents,
- insufficient cash flow that could affect our debt financing and create refinancing risk,
- failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders,
- development and construction risks that may impact our profitability,
- potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us,
- risks from extraordinary losses for which we may not have insurance or adequate reserves,
- uninsured losses due to losses in excess of applicable coverage,

delays in completing developments and lease-ups on schedule,

our failure to succeed in new markets,

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

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

the imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue Code in any taxable year,

our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price, and

changes in real estate laws, tax laws and other laws affecting our business.

Table of Contents

A discussion of these and other factors affecting our business and prospects is set forth below in Part II, Item 1A. Risk Factors. We encourage investors to review these risks factors.

Business Overview

We are a real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this Report to we, us, our, the company, or UDR refer collectively to UDR, Inc. and its subsidiaries.

At March 31, 2008, our portfolio included 156 communities with 43,559 apartment homes nationwide. The following table summarizes our market information by major geographic markets:

	As of March 31, 2008				Quarter Ended March 31, 2008	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (In thousands)	Average Physical Occupancy	Total Income per Occupied Home(a)
SAME COMMUNITIES						
WESTERN REGION						
Orange Co, CA	13	4,067	13.5%	$ 698,738	95.3%	$ 1,573
San Francisco, CA	8	1,768	5.9%	304,842	96.4%	1,785
Los Angeles, CA	5	1,052	3.5%	183,559	95.3%	1,535
San Diego, CA	5	1,123	3.2%	167,863	93.4%	1,368
Inland Empire, CA	2	660	1.5%	79,362	92.0%	1,165
Seattle, Wa	6	1,199	2.3%	116,825	95.3%	1,117
Monterey Peninsula, CA	7	1,565	2.8%	146,589	92.3%	999
Sacramento, CA	2	914	1.3%	65,545	87.7%	915
Portland, OR	3	716	1.2%	63,896	92.8%	973
MID-ATLANTIC REGION						
Metropolitan DC	7	2,097	4.1%	211,427	96.4%	1,325
Baltimore, MD	8	1,556	2.9%	148,401	96.7%	1,173
Richmond, VA	6	1,958	2.9%	148,930	95.6%	987
Norfolk, VA	6	1,438	1.5%	77,953	95.1%	964
Other Mid-Atlantic	5	1,132	1.4%	72,111	93.4%	1,038
SOUTHEASTERN REGION						
Orlando, FL	8	2,140	3.2%	162,587	92.1%	983
Tampa, FL	9	3,081	4.3%	224,726	94.7%	962
Nashville, TN	7	1,874	2.6%	135,310	95.8%	869
Jacksonville, FL	4	1,557	2.2%	115,487	95.0%	870

Other Florida	3	976	1.8%	93,513	93.9%	1,081
SOUTHWESTERN REGION						
Dallas, TX	1	305	1.2%	60,241	91.3%	1,609
Phoenix, AZ	3	914	1.3%	68,818	94.7%	960
Austin, TX	1	250	0.4%	19,990	97.3%	954
Total/Average Same Communities	**119**	**32,342**	**65.0%**	**3,366,713**	**94.6%**	**$ 1,168**
Non-Matures, Commercial Properties and Other	29	8,822	26.8%	1,391,137		
Total Real Estate Held for Investment	**148**	**41,164**	**91.8%**	**4,757,850**		
Held for Disposition	4	1,101	1.4%	75,050		
Real Estate Under Development	4	1,294	6.8%	350,252		
Total	**156**	**43,559**	**100.0%**	**$ 5,183,152**		

(a) Total income per Occupied Home represents total revenues per weighted average number of apartment homes occupied.

Table of Contents

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale or maturity of existing assets, or by the acquisition of additional funds through capital management. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes. We routinely use our unsecured bank credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities.

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

We have a shelf registration statement filed with the Securities and Exchange Commission which provides for the issuance of an indeterminate amount of common stock, preferred stock, debt securities, warrants, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

Future Capital Needs

Future development expenditures are expected to be funded with proceeds from the sale of property, with construction loans, through joint ventures, the use of our unsecured revolving credit facility, and to a lesser extent, with cash flows provided by operating activities. Acquisition activity in strategic markets is expected to be largely financed by the reinvestment of proceeds from the sale of properties and through the issuance of equity and debt securities, the issuance of operating partnership units, and the assumption or placement of secured and/or unsecured debt. At March 31, 2008, we had approximately $348.3 million in funds held in escrow from IRC Section 1031 exchanges pending the acquisition of real estate.

During the remainder of 2008, we have approximately $9.5 million of secured debt and $75.9 million of unsecured debt maturing and we anticipate repaying that debt with proceeds from borrowings under our secured or unsecured credit facilities, the issuance of new unsecured debt securities or equity or from disposition proceeds.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, and (3) real estate investment properties.

Real Estate Sales

The Company accounts for sales of real estate in accordance with SFAS 66. For sale transactions meeting the requirements for full accrual profit recognition, we remove the related assets and liabilities from our consolidated balance sheet and we record the gain or loss in the period the transaction closes. For sales transactions that do not contain continuing involvement or if the continuing involvement with the property is limited by the terms of the sales contract, we recognize profit at the time of sale. For sales transactions that do not meet the full accrual sale criteria due to continuing involvement, we evaluate the nature of the continuing

Table of Contents

involvement and account for the transaction under an alternate method of accounting rather than as a full accrual sale, based on the nature and extent of our continuing involvement.

Sales to entities in which we retain or otherwise own an interest are accounted for as partial sales under paragraphs 33-36 of SFAS 66. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer. In transactions accounted by us as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

Our other critical accounting policies are described in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no significant changes in our critical accounting policies from those reported in our 2007 Annual Report on Form 10-K. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows

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

Operating Activities

For the three months ended March 31, 2008, our cash flow provided by operating activities was $26.8 million compared to $36.3 million for the same period in 2007. The decrease in cash flow from operating activities resulted primarily from the decrease in property net operating income from our apartment community portfolio for the three months ended March 31, 2008. This decrease is primarily due to the decrease in the average number of homes for the three months ended March 31, 2008 as compared to the same period of 2007 (see discussion under Apartment Community Operations).

Investing Activities

For the three months ended March 31, 2008, net cash provided by/(used in) investing activities was $577.5 million as compared to ($98.5) million for the same period in 2007. Changes in the level of investing activities from period to period reflects our strategy as it relates to our disposition, acquisition, capital expenditure, and development programs, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail below.

Acquisitions

For the three months ended March 31, 2008, we acquired six apartment communities with 2,718 apartment homes, 38,800 square feet of commercial space and two parcels of land for an aggregate consideration of $579.6 million. Our long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been expanding our interests in the fast growing Southern California, Florida, and Metropolitan Washington DC markets over the past years. During 2008, we plan to continue to channel new investments into those markets we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including favorable job formation and low single-family home affordability.

Capital Expenditures

In conformity with accounting principles generally accepted in the United States, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or

Table of Contents

substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

During the first three months of 2008, $31.9 million or approximately $561 per home was spent on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated $5.8 million or $103 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $11.7 million or $205 per home, and major renovations totaled $14.4 million or $253 per home for the quarter ended March 31, 2008.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties, for the periods presented:

	Three Months Ended March 31, (dollars in thousands)			Three Months Ended March 31, (per home)		
	2008	**2007**	**% Change**	**2008**	**2007**	**% Change**
Turnover capital expenditures	**$ 2,702**	$ 3,291	(17.9)%	**$ 48**	$ 48	0.0%
Asset preservation expenditures	**3,108**	4,271	(27.2)%	**55**	62	11.3%
Total recurring capital expenditures	**5,810**	7,562	(23.2)%	**103**	110	(6.4)%
Revenue enhancing improvements	**11,664**	23,885	(51.2)%	**205**	346	(40.8)%
Major renovations	**14,385**	18,595	(22.6)%	**253**	270	(6.3)%
Total capital expenditures	**$ 31,859**	$ 50,042	(36.3)%	**$ 561**	$ 726	(22.7)%
Repair and maintenance expense	**9,314**	$ 10,275	(9.4)%	**$ 164**	$ 149	10.1%

Total capital expenditures for our communities decreased $18.2 million or $165 per home for the three months ended March 31, 2008, compared to the same period in 2007. This decrease was primarily attributable to a $1.8 million decrease in recurring capital expenditures, a $12.2 million decrease in revenue enhancing improvements at certain of our properties, and a $4.2 million decrease in major renovation expenditures as compared to the same period in 2007. We will continue to selectively add revenue enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital. Recurring capital expenditures during 2008 are currently expected to be approximately $650 per home.

Development

Development activity is focused in core markets in which we have strong operations in place. For the three months ended March 31, 2008, we invested approximately $24.0 million on development projects, an increase of $6.7 million from $17.3 million for the same period in 2007.

Real Estate Under Development

The following wholly owned apartments were under development as of March 31, 2008:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Completion Date
Tiburon Phase I Houston, TX	320	320	$ 20,971	$ 22,000	$ 65,534	1Q08
Vitruvian Park Dallas, TX	2,712		62,715	352,000	129,794	3Q12
Total wholly owned apartments	**3,032**	**320**	**$ 83,686**	**$ 374,000**	**$ 123,351**	

The first phase of Vitruvian Park is expected to begin delivering homes in the fourth quarter of 2009.

Table of Contents

In addition, we own 11 parcels of land held for future development aggregating $137.1 million at March 31, 2008.

Consolidated Development Joint Ventures

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

The following consolidated joint venture project was under development as of March 31, 2008:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Jefferson at Marina del Rey Marina del Rey, CA	298		$ 129,626	$ 138,000	$ 463,087	3Q08

Unconsolidated Development Joint Ventures

UDR is a partner in a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the project that involves building a 430 home high rise apartment building with ground floor retail. Our initial investment was $5.7 million. The project is currently expected to be completed in the fourth quarter of 2010. Our investment at March 31, 2008, and December 31, 2007, was $8.8 million and $8.1 million, respectively.

UDR is a partner in a joint venture which will develop 274 apartment homes in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in the fourth quarter of 2008. At closing, we owned 49% of the project. Our initial investment was $10.0 million. Our investment at March 31, 2008 and December 31, 2007 was $8.5 million and $8.9 million, respectively.

In November 2007, UDR and an unaffiliated partner formed a joint venture which owns and operates various properties located in Texas. On the closing date, UDR sold nine operating properties, consisting of 3,690 units, and contributed one property under development to the joint venture. The property under development will have 302 units and is expected to be completed in the third quarter of 2008. UDR contributed cash and property equal to 20% of the fair value of the properties. The unaffiliated partner contributed cash equal to 80% of the fair value of the properties comprising the venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at March 31, 2008, and December 31, 2007 was $19.5 million and $20.1 million, respectively.

Table of Contents

The following unconsolidated joint venture projects were under development as of March 31, 2008:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date
Lincoln Towne Square Phase II Plano, TX	302	56	$ 19,323	$ 25,000	$ 82,781	3Q08
Bellevue Plaza Bellevue, WA	430		37,990	135,000	313,953	4Q10
Ashwood Commons Bellevue, WA	274		47,171	97,000	354,015	4Q08
Total unconsolidated development joint ventures	**1,006**	**56**	**$ 104,484**	**$ 257,000**	**$ 255,467**	

Disposition of Investments

For the three months ended March 31, 2008, UDR sold 84 communities with a total of 25,140 apartment homes and one commercial unit, for a gross consideration of $1.7 billion, 22 condominiums from two communities with a total of 640 condominiums for a gross consideration of $1.9 million, and one parcel of land for $1.6 million. We recognized after-tax gains for financial reporting purposes of $767.3 million on these sales. Proceeds from the sales were used primarily to reduce debt.

In conjunction with the sale of 84 properties in March 2008, UDR received a note in the amount of $200 million. The note matures on March 31, 2014, may be pre-paid fourteen months from the date of the note, bears interest at a fixed rate of 7.5% per annum and is secured by a pledge and security agreement and a guarantee from the buyer s parent company.

During 2008, we plan to continue to pursue our strategy of exiting markets where long-term growth prospects are limited and redeploying capital into markets we believe will provide the best investment returns. We intend to use the proceeds from 2008 dispositions to reduce debt, acquire communities, and fund development activity.

Financing Activities

Net cash (used in)/provided by financing activities during the three months ended March 31, 2008, was ($547.3) million as compared to $61.7 million for the same period in 2007. As part of the plan to improve our balance sheet, we utilized proceeds from dispositions to pay down existing debt, repurchase our common shares and purchase new properties.

The following is a summary of our significant financing activities for the three months ended March 31, 2008:

Repaid $67.6 million of secured debt and $576.9 million of unsecured debt. The $576.9 million of unsecured debt consisted of a $309.5 million payment for the revolving credit facility, $200 million for a medium-term note maturity and $67.4 million for the repurchase of medium-term notes.

In January 2008, our Board of Directors authorized a new 15 million share repurchase program. This program is in addition to our already existing 10 million 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. During the three months ended March 31, 2008, we repurchased 4,386,500 shares of UDR common stock at an average price per share of $23.33 under our share repurchase programs.

Closed on a $240 million, two-year unsecured term loan facility. Proceeds were used to redeem $200 million of 4.5% medium term notes that were due in March 2008, and the remaining $40 million will be used for general corporate purposes.

Table of Contents

Credit Facilities

We have four secured revolving credit facilities with Fannie Mae with an aggregate commitment of $748.9 million. As of March 31, 2008, $631.7 million was outstanding under the Fannie Mae credit facilities leaving $117.2 million of unused capacity. The Fannie Mae credit facilities are for an initial term of ten years, bear interest at floating and fixed rates, and certain of the credit facilities can be extended for an additional five years at our option. We have $582.5 million of the funded balance fixed at a weighted average interest rate of 5.9% and the remaining balance on these facilities is currently at a weighted average variable rate of 3.6%.

We have a $600 million unsecured revolving credit facility that matures on July 26, 2012. Under certain circumstances, we may increase the $600 million credit facility to $750 million. Based on our current credit ratings, the $600 million credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points, which represents a 10 basis point reduction to the previous $500 million credit facility. Under a competitive bid feature and for so long as we maintain an Investment Grade Rating, we have the right under the $600 million credit facility to bid out 50% of the commitment amount and we can bid out 100% of the commitment amount once per quarter. As of March 31, 2008, we had no borrowings outstanding under the credit facility leaving $600 million of unused capacity.

The Fannie Mae credit facility and the bank revolving credit facility are subject to customary financial covenants and limitations.

Information concerning short-term bank borrowings under our bank credit facility is summarized in the table that follows *(dollars in thousands)*:

	Three Months Ended March 31, 2008	Twelve Months Ended December 31, 2007
Total revolving credit facility	**$ 600,000**	$ 600,000
Borrowings outstanding at end of period		309,500
Weighted average daily borrowings during the period	**268,549**	222,216
Maximum daily borrowings during the period	**587,400**	408,400
Weighted average interest rate during the period	**4.3%**	5.6%
Weighted average interest rate at end of period	**n/a**	5.4%

Derivative Instruments

As part of UDR s overall interest rate risk management strategy, we use derivatives as a means to fix the interest rates of variable rate debt obligations or to hedge anticipated financing transactions. UDR s derivative transaction used for interest rate risk management includes an interest rate swap with an index that relates to the pricing of a specific financial instrument of UDR. We believe that we have appropriately controlled our interest rate risk through the use of derivative instruments so that there will not be any material unintended effect on consolidated earnings. Derivative contracts did not have a material impact on the results of operations during the first quarter of 2008 *(see Note 8 Financial Instruments in Notes to Consolidated Financial Statements).*

Funds from Operations

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

Table of Contents

in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

Historical cost accounting for real estate assets in accordance with generally accepted accounting principles implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, premiums or original issuance costs associated with preferred stock redemptions, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

The following table outlines our FFO calculation and reconciliation to generally accepted accounting principles for the three months ended March 31, 2008 and 2007 *(dollars and shares in thousands)*:

	Three Months Ended March 31,	
	2008	**2007**
Net income	**$ 725,259**	$ 31,832
Adjustments:		
Distributions to preferred stockholders	**(3,209)**	(3,842)
Real estate depreciation and amortization	**52,435**	44,470
Minority interests of unitholders in operating partnership	**(1,126)**	(1,034)
Contribution of unconsolidated joint ventures	**371**	265
Subsidiary investment income	**374**	(112)
Income tax benefit	**(1,265)**	(4,350)
Discontinued Operations:		
Real estate depreciation		19,690
Minority interests of unitholders in operating partnership	**49,909**	2,730
Net gains on the sale of depreciable property	**(767,146)**	(37,070)
RE^3 gain on sales, net of tax	**449**	4,363
Funds from operations basic	**56,051**	**56,942**
Distributions to preferred stockholders Series E (Convertible)	**931**	931
Funds from operations diluted	**$ 56,982**	$ 57,873
Weighted average number of common shares and OP Units outstanding basic	**140,628**	142,713

Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**144,014**	149,227

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

Table of Contents

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

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007 *(shares in thousands):*

	Three Months Ended March 31,	
	2008	**2007**
Weighted average number of common shares and OP units outstanding basic	**140,628**	142,713
Weighted average number of OP units outstanding	**(8,963)**	(8,202)
Weighted average number of common shares outstanding basic per the Consolidated Statements of Operations	**131,665**	134,511
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**144,014**	149,227
Weighted average number of OP units outstanding	**(8,963)**	(8,202)
Weighted average incremental shares from assumed conversion of stock options	**(522)**	(830)
Weighted average incremental shares from unvested restricted stock	**(60)**	(191)
Weighted average incremental shares from assumed conversion of $250 million convertible debt		(1,039)
Weighted average number of Series A OPPSs outstanding		(1,650)
Weighted average number of Series E preferred shares outstanding	**(2,804)**	(2,804)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**131,665**	134,511

FFO also does not represent cash generated from operating activities in accordance with generally accepted accounting principles, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by generally accepted accounting principles, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs.

A presentation of cash flow metrics based on generally accepted accounting principles is as follows for the three months ended March 31, (*dollars in thousands*):

	Three Months Ended March 31,	
	2008	**2007**
Net cash provided by operating activities	**$ 26,799**	$ 36,345

Net cash provided by/(used in) investing activities	**577,492**	(98,545)
Net cash (used in)/provided by financing activities	**(547,323)**	61,733

Results of Operations

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

Net Income Available to Common Stockholders

Net income available to common stockholders was $722.1 million ($5.48 per diluted share) for the three months ended March 31, 2008, compared to $28.0 million ($0.21 per diluted share) for the same period in the prior year. The increase for the three months ended March 31, 2008, when compared to the same period in

Table of Contents

2007, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

a $730.1 million increase in gains recognized from the sale of depreciable property,

a $11.7 million decrease in real estate depreciation and amortization expense, and

a $5.8 million decrease in interest expense.

These increases in income were partially offset by a $47.1 million increase in minority interest expense and a $6.7 million decrease in apartment community operating results during the first quarter of 2008 when compared to the same period in 2007.

Apartment Community Operations

Our net income is primarily generated from the operation of our apartment communities. The following table summarizes the operating performance of our total apartment portfolio for the three months ended March 31, *(dollars in thousands)*:

	2008	**2007**	**% Change**
Property rental income	**$ 165,688**	$ 182,684	(9.3)%
Property operating expense*	**(57,050)**	(67,298)	(15.2)%
Property net operating income	**$ 108,638**	$ 115,386	(5.8)%
Weighted average number of homes	**56,853**	70,248	(19.1)%
Physical occupancy**	**91.8%**	92.7%	(0.9)%

* Excludes depreciation, amortization, and property management expenses.

** Based upon weighted average stabilized homes.

The following table is our reconciliation of property net operating income to net income as reflected on the Consolidated Statements of Operations for the three months ended March 31, *(dollars in thousands)*:

	2008	**2007**
Property net operating income	**$ 108,638**	$ 115,386
Commercial net operating income	**(324)**	553
Non-property income	**5,701**	5,005
Real estate depreciation and amortization	**(53,364)**	(65,014)
Interest	**(38,370)**	(44,194)
General and administrative and property management	**(14,322)**	(14,937)
Other operating expenses	**(1,004)**	(311)

Net gain on the sale of depreciable property	**767,146**	37,070
Minority interests	**(48,842)**	(1,726)
Net income per the Consolidated Statements of Operations	**$ 725,259**	$ 31,832

Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to March 31, 2007, and held on March 31, 2008, which consisted of 32,342 apartment homes) provided 68% of our property net operating income for the quarter ended March 31, 2008.

For the first quarter of 2008, same community property net operating income increased 7.7% or $5.3 million compared to the same period in 2007. The increase in property net operating income was primarily attributable to a 5.0% or $5.1 million increase in revenues from rental and other income and a 0.5% or $0.2 million decrease in operating expenses. The increase in revenues from rental and other income was

Table of Contents

primarily driven by a 2.1% or $2.2 million increase in rental rates, a 78.7% or $1.4 million decrease in rental concessions, an 11.6% or $0.7 million decrease in vacancy loss, and an 8.4% or $0.6 million increase in reimbursement income and fee income. Physical occupancy increased 0.6% to 94.6%.

The decrease in property operating expenses was primarily driven by a 72.5% or $1.2 million decrease in insurance expense that was offset by a 4.2% or $0.4 million increase in real estate taxes, a 4.3% or $0.4 million increase in personnel costs, and a 3.8% or $0.2 million increase in repair and maintenance expense.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 68.6% as compared to 66.9% in the prior year.

Non-Mature Communities

The remaining 32% or $35.1 million of our property net operating income during the quarter ended March 31, 2008, was generated from communities that we classify as non-mature communities. UDR s non-mature communities consist primarily of sold properties, properties classified as real estate held for disposition, communities acquired or developed in 2007 and 2008, redevelopment properties, and condominium properties.

The largest component of our non-mature portfolio is represented by our sold properties. For the quarter ended March 31, 2008, these communities provided $24.0 million of property net operating income.

Real Estate Depreciation and Amortization

For the three months ended March 31, 2008, real estate depreciation and amortization on both continuing and discontinued operations decreased 17.9% or $11.7 million compared to the same period in 2007, primarily due to ceasing depreciation on properties classified as held for sale. Real estate depreciation and amortization from continuing operations increased $8.0 million or 17.9% as compared to the same period in 2007 primarily due to the increase in per home acquisition cost compared to the existing portfolio and other capital expenditures.

Interest Expense

For the quarter ended March 31, 2008, interest expense on both continuing and discontinued operations decreased 13.2% or $5.8 million compared to the same period in 2007. This decrease is primarily due to a $5.1 million gain recognized upon the redemption of medium term notes with a notional amount of $67.4 million for $62.3 million during the three months ended March 31, 2008.

The weighted average interest rate decreased from 5.3% in 2007 to 5.1% in 2008. The decrease in the weighted average interest rate during 2008 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2008 when compared to the same period in 2007.

General and Administrative

For the three months ended March 31, 2008, general and administrative expenses decreased $0.1 million or 1.2% compared to the same period in 2007. The slight decrease was due to a number of factors, none of which were significant.

Gains on the Sales of Depreciable Property

For the three months ended March 31, 2008, we recognized after-tax gains for financial reporting purposes of $767.1 million compared to $37.1 million for the comparable period in 2007. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period, as well as the extent of gains related to specific properties sold.

Table of Contents

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While inflation primarily impacts our results through wage pressures, 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 inflationary effects by increasing rents. Although extreme growth in energy prices could have a negative impact on our residents and their ability to absorb rent increases, this has not had a material impact on our results.

Off-Balance Sheet Arrangements

UDR has entered into four contracts to purchase apartment communities upon completion of their development. Provided that the developer meets certain conditions, UDR will purchase these communities for an aggregate of approximately $166 million. These apartment communities are expected to be completed at various times between the third quarter of 2008 and the third quarter of 2010.

Other than the purchase contracts listed above, we do not have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes associated with our unsecured credit facility and other variable rate debt as well as refinancing risk on our fixed rate debt. UDR s involvement with derivative financial instruments is limited and we do not expect to use them for trading or other speculative purposes. UDR uses derivative instruments solely to manage its exposure to interest rates.

See our Annual Report on Form 10-K for the year ended December 31, 2007 Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a more complete discussion of our interest rate sensitive assets and liabilities. As of March 31 2008, our market risk has not changed materially from the amounts reported on our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 4. CONTROLS AND PROCEDURES

As of March 31, 2008, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. In addition, our Chief Executive Officer and our Chief Financial Officer concluded that during the quarter ended March 31, 2008, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our internal control over financial reporting is designed with the objective of providing reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals

under all potential future conditions, regardless of how remote. However, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective under circumstances where our disclosure controls and procedures should reasonably be expected to operate effectively.

Table of Contents

PART II OTHER INFORMATION

Item 1A. RISK FACTORS

There are many factors that affect our business and our results of operations, some of which are beyond our control. The following is a description of important factors that may cause our actual results of operations in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this Report relating to our financial results, operations and business prospects. Except as required by law, we undertake no obligation to update any such forward-looking statements to reflect events or circumstances after the date on which it is made.

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

a reduction in jobs and other local economic downturns,

declines in mortgage interest rates, making alternative housing more affordable,

government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing decisions easier to make,

oversupply of, or reduced demand for, apartment homes,

declines in household formation, and

rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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

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

an acquired apartment community may fail to perform as we expected in analyzing our investment, or a significant exposure related to the acquired property may go undetected during our due diligence procedures,

when we acquire an apartment community, we often invest additional amounts in it with the intention of increasing profitability. These additional investments may not produce the anticipated improvements in

profitability,

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

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

Table of Contents

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

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

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

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

- the national and local economies,
- local real estate market conditions, such as an oversupply of apartment homes,
- tenants perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located,
- our ability to provide adequate management, maintenance and insurance, and
- rental expenses, including real estate taxes and utilities.

Expenses associated with our investment in a community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from that

community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments, we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

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

Table of Contents

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

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

- we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations,

- if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited,

- we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities,

- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs,

- occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community, and

- when we sell to third parties homes or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

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

Some Potential Losses Are Not Covered by Insurance. We have a comprehensive insurance program covering our property and operating activities. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are, however, certain types of extraordinary losses for which we may not have insurance. Accordingly, we may sustain uninsured losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

We may not be able to renew insurance coverage in an adequate amount or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive. If an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the

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

Table of Contents

Failure to Succeed in New Markets May Limit Our Growth. We may from time to time make acquisitions outside of our existing market areas if appropriate opportunities arise. We may be exposed to a variety of risks if we choose to enter new markets, and we may not be able to operate successfully in new markets. These risks include, among others:

inability to accurately evaluate local apartment market conditions and local economies,

inability to obtain land for development or to identify appropriate acquisition opportunities,

inability to hire and retain key personnel, and

lack of familiarity with local governmental and permitting procedures.

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of March 31, 2008, we had approximately $225.7 million of variable rate indebtedness outstanding, which constitutes approximately 7% of our total outstanding indebtedness as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of our common and preferred stock and debt securities.

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

Limited Investment Opportunities Could Adversely Affect Our Growth. We expect that other real estate investors will compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, developer partnerships, investment companies and other apartment REITs. This competition could increase prices for properties of the type that we would likely pursue, and our competitors may have greater resources than we do. As a result, we may not be able to make attractive investments on favorable terms, which could adversely affect our growth.

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

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges.

Potential Liability for Environmental Contamination Could Result in Substantial Costs. Under various federal, state and local environmental laws, as a current or former owner or operator of real estate, we could be required to

investigate and remediate the effects of contamination of currently or formerly owned real estate by hazardous or toxic substances, often regardless of our knowledge of or responsibility for the contamination and solely by virtue of our current or former ownership or operation of the real estate. In addition, we could be held liable to a governmental authority or to third parties for property damage and for investigation and clean-up costs incurred in connection with the contamination. These costs could be substantial, and in many cases environmental laws create liens in favor of governmental authorities to secure their payment. The

Table of Contents

presence of such substances or a failure to properly remediate any resulting contamination could materially and adversely affect our ability to borrow against, sell or rent an affected property.

We Would Incur Adverse Tax Consequences if We Fail to Qualify as a REIT. We have elected to be taxed as a REIT under the Internal Revenue Code. Our qualification as a REIT requires us to satisfy numerous requirements, some on an annual and quarterly basis, established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. We intend that our current organization and method of operation enable us to continue to qualify as a REIT, but we may not so qualify or we may not be able to remain so qualified in the future. In addition, U.S. federal income tax laws governing REITs and other corporations and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. Future legislation, new regulations, administrative interpretations or court decisions could adversely affect our ability to qualify as a REIT or adversely affect our stockholders.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to our stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year in which we first failed to qualify. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to our stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to our stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

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

Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of Our Common Stock. The stock markets, including the New York Stock Exchange, on which we list our

Table of Contents

common shares, have experienced significant price and volume fluctuations. As a result, the market price of our common stock could be similarly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects.

Property Ownership Through Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. If we use such a structure, we could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, joint venture partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest.

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

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

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

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

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

Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. Terrorist attacks and other acts of violence or war could have a material adverse effect on our business

and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our ability to achieve our expected results. Further, our insurance coverage may not cover all losses caused by a terrorist

Table of Contents

attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations.

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in Our Stockholders Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of our stock representing 10% or more of the voting power without our board of directors prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 662/3% of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

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

Table of Contents

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Repurchase of Equity Securities

In February 2006, our Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, 4,386,500 shares of common stock were repurchased under these programs during the quarter ended March 31, 2008.

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
Beginning Balance	3,114,500	$ 25.02	3,114,500	6,885,500(1)
January 1, 2008 through January 31, 2008				21,885,500(2)
February 1, 2008 through February 29, 2008	1,100,000	22.52	1,100,000	20,785,500
March 1, 2008 through March 31, 2008	3,286,500	23.60	3,286,500	17,499,000
Balance as of March 31, 2008	7,501,000	$ 24.03	7,501,000	17,499,000

UDR repurchased an additional 955,800 shares during April 2008 at an average price of $24.32 per share.

(1) This number reflects the number of shares that were available for purchase under our 10 million share repurchase program on December 31, 2007.

(2) This number reflects the number of shares that were available for purchase under our 10 million and 15 million share repurchase programs on January 31, 2008.

Item 6. EXHIBITS

The exhibits filed or furnished with this Report are set forth in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UDR, Inc.
(registrant)

Date: May 12, 2008

/s/ Michael A. Ernst
Michael A. Ernst
Executive Vice President and Chief Financial Officer

Date: May 12, 2008

/s/ David L. Messenger
David L. Messenger
Senior Vice President and Chief Accounting Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement of Purchase and Sale dated January 23, 2008, by and between the Company, DRA Fund VI LLC and the other signatories thereto (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K dated January 23, 2008 and filed with the SEC on January 29, 2008 (Commission File No. 1-10524)).
2.2	First Amendment to Agreement of Purchase and Sale by and between the Company, DRA Fund VI LLC and the other signatories thereto (incorporated by reference to Exhibit 2.2 to the Company s Current Report on Form 8-K/A dated March 3, 2008 and filed with the SEC on May 2, 2008 (Commission File No. 1-10524)).
10.1*	Letter Agreement between the Company and Warren L. Troupe (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated February 22, 2008 and filed with the SEC on February 27, 2008 (Commission File No. 1-10524)).
10.2*	Indemnification Agreement between the Company and Warren L. Troupe (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated February 22, 2008 and filed with the SEC on February 27, 2008 (Commission File No. 1-10524)).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Chief Financial Officer.

* Management contracts and compensatory plans or arrangements.