



Opening doors to the futureSM

Dear Shareholder,

2013 was a good year for UDR.

Our team drove successful execution across all aspects of our business, and the fundamentals that enable multifamily property earnings growth continue to be healthy.

While our share price during 2013 was relatively unchanged for the year, our business was strong and we declared dividends of approximately \$240 million. This represented \$0.94 per common share, a 7% increase from 2012 and the 41st straight year we paid a dividend. In early 2014, we again raised our common dividend to \$1.04 per share, representing approximately \$265 million or an increase of 11% over 2013.

We kicked off 2013 by presenting our inaugural Three-Year Strategic Plan to ensure our strategy and objectives were clear to our investors and UDR associates. The Plan provided a roadmap for how we intended to create shareholder value via a focus on long-term cash flow growth. Primary drivers included the expectation of strong same-store results, the completion of value-accretive development communities and further improving our balance sheet. The Plan was well accepted by our investors and UDR associates and I am pleased to communicate that we met or exceeded all of our 2013 Plan objectives while also positioning the Company for robust cash flow growth in the coming years.

2013 Highlights – A Year in Review

Earnings and Dividend Growth

Our 2013 earnings performed at the high end of our initial expectations due to strong operational results achieved during the year.

	2013 Original Guidance	2013 Actual Results
EARNINGS AND DIVIDEND GROWTH		
FFO as Adjusted/share	\$1.33 - \$1.39	\$1.39
AFFO/share	\$1.17 - \$1.23	\$1.23
Declared Dividend/share	\$0.94	\$0.94

**** Funds From Operations (FFO) as Adjusted/share** is defined as FFO excluding the impact of acquisition-related costs and other non-comparable items including, but not limited to, prepayment costs/benefits associated with early debt retirement, gains on sales of marketable securities and TRS property, deferred tax valuation allowance increases and decreases, storm-related expenses, severance costs and legal costs. FFO is defined as net income (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms to the National Association of Real Estate Investment Trust's definition issued in April 2002. In the computation of diluted FFO, OP units, unvested restricted stock, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count.

**** Adjusted Funds From Operations (AFFO)/share** is defined as FFO as Adjusted less recurring capital expenditures that are necessary to help preserve the value of and maintain functionality at our communities.

Operations

We consider the quality of our operating platform to be a critical driver of consistent long-term cash flow growth. In 2013 we generated strong operating cash flow growth that exceeded the mid-point of our Plan and was well ahead of industry long-term historical averages. We attribute our favorable results to a variety of factors including:

- The hard work of our outstanding team of well-trained associates,
- Delivery of superior customer service, leading to higher resident retention,
- Continued reinvestment in our communities to maintain them in excellent condition,
- Superior locations through a bi-coastal focus in submarkets we deem to have favorable fundamentals, and
- Continued investment in and focus on utilizing technology to improve our residents' experience and drive the efficiency of our services.

Excellence and continuous improvement in operations has been, and will continue to be, a permanent focus of our team.

	2013 Original Year-over-Year Guidance	2013 Actual Results
OPERATIONS		
Same-Store Revenue Growth	4.0% - 5.0%	4.9%
Same-Store NOI Growth	4.25% - 6.0%	6.0%

Capital Allocation / Portfolio Improvement

Our long-term portfolio and balance sheet repositioning effort was largely completed by year-end 2012, which during the preceding five years included approximately \$7 billion of transactions, the expansion of our development platform and pipeline and the deleveraging of our balance sheet from 52% to 39%. Our current portfolio is diversified and possesses the following characteristics:

- 185 communities with 52,949 homes in 22 markets,
- Primarily bi-coastal portfolio with equal mix of class A and B assets located in both urban and suburban settings,
- Our largest markets are Orange County and Los Angeles (15%), New York (13%), Metropolitan Washington, DC (13%), San Francisco (10%), Seattle (6%) and Boston (5%), and
- Average rent of \$1,670 per home, which is 51% higher than the national average of \$1,109.

Our portfolio appeals to renters of choice who, on average, spend only 17% of their income on rent, want to live where they work and play, and are in markets that exhibit low single-family home ownership affordability; a great combination for long-term cash flow growth.

A major focus of our senior management team is the ongoing optimization of our portfolio cash flow growth through strategic capital allocation. In connection with these activities, during 2013 we made no major property purchases as valuations were not compelling. We did, however, identify considerable value-creation opportunities in development communities in our targeted markets and invested

approximately \$400 million in these endeavors. Development communities have the potential to create significant value in excess of investment, and we believe that the \$400 million we invested in 2013 will create property value in excess of \$550 million when the communities are stabilized. We have a pipeline of \$1.2 billion of development currently underway and expect to spend \$400 million to \$600 million per year on our pipeline. The investment will be funded primarily with the measured sales of older, but well maintained, non-core properties for which we believe long-term cash flow growth will be inferior to our in-place core portfolio and newly developed communities.

Balance Sheet Management

While executing our Plan in 2013, our balance sheet metrics remained in-line with industry norms. During 2013 we issued \$300 million of 7-year senior unsecured notes at favorable terms to refinance maturing debt and refinanced our revolver to extend the maturity and reduce the interest rate. We continue to have very strong liquidity and access to debt and equity capital. Our balance sheet metrics will continue to improve in 2014 and 2015 as new development communities come on line.

	2013 Original Guidance	2013 Actual Results
BALANCE SHEET		
Debt-to-Gross Assets	38% - 40%	39%
Net Debt-to-EBITDA	6.8x - 7.2x	7.0x
Fixed Charge Interest Coverage	2.8x - 3.0x	3.1x

MetLife Relationship

During the past few years we established and have grown a valued partnership with MetLife, a Fortune 50 global company that was interested in working with a best-in-class multifamily operator with strong development skills. Currently, our partnership comprises over \$2.8 billion of multifamily assets under management, all of which we operate. We appreciate MetLife as a long-term partner and plan to continue to grow this synergistic relationship in the future.

2014 and Updated Three-Year Strategic Plan

In February 2014 we updated our Three-Year Strategic Plan for the 2014-2016 timeframe (see the Presentations tab of the Investor Relations section of the Company's website www.udr.com). The strategic objectives set forth in the updated Plan are consistent with those in our inaugural Plan published in early 2013 and include:

- Allocate capital to accretive growth prospects that strengthen our market mix, portfolio quality and growth rates,
- Drive organic growth and improve resident / associate satisfaction through our best-in-class operating platform,
- Generate high-quality cash flow growth to drive dividend and share price growth, and
- Maintain a strong and flexible balance sheet while seeking to further improve our metrics over time.

We are forecasting 7% to 9% AFFO per share growth in 2014. We expect our operations will continue to outperform versus our peers. Our balance sheet and liquidity will remain strong. Development will continue to be a primary driver of external growth and portfolio quality improvement. And finally, we remain focused on identifying accretive uses for your capital.

We are excited about our prospects in 2014, which is shaping up to be another good year for UDR and the multifamily business. We continue to be intently focused on executing our updated 2014-2016 Strategic Plan and believe we have the right team in place to do so.

I would like to extend my gratitude to all of my fellow UDR associates for their continued hard work. Our future prospects are bright, and we look forward to sharing our continued successes with each of you.

Thomas W. Toomey
President and Chief Executive Officer

Forward Looking Statements

Certain statements made in this letter may constitute "forward-looking statements." Words such as "expects," "intends," "believes," "anticipates," "plans," "likely," "will," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts and assumptions and are subject to risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement, due to a number of factors, which include, but are not limited to, unfavorable changes in the apartment market, changing economic conditions, the impact of inflation/deflation on rental rates and property operating expenses, expectations concerning availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, expectations on annualized net operating income and other risk factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time, including the Company's Annual Report on Form 10-K and the Company's Quarterly Reports on Form 10-Q. Actual results may differ materially from those described in the forward-looking statements. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this letter, and the Company expressly disclaims any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in the Company's expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required under the U.S. securities laws.

This letter and these forward-looking statements include UDR's analysis and conclusions and reflect UDR's judgment as of the date of these materials. UDR assumes no obligation to revise or update to reflect future events or circumstances.