



Opening doors to the future®

Dear Shareholder,

2014 was a successful year for UDR (the “Company”) on all fronts. Multifamily fundamentals remained favorable with demand exceeding supply in most of our markets, a dynamic we expect to continue for some time. We took advantage of this by further investing in new development which remained highly profitable. In addition, the overall economic environment was accommodative to improving our already robust balance sheet. In short, 2014 was a fantastic year to be in the multifamily business.

The year began with the publication of an update to our 3-Year Strategic Plan. The document and the transparent guidance it provides: (1) serves as a near- and long-term roadmap for stakeholders, (2) is a constant reminder that executing our strategic objectives is paramount and (3) is the standard against which we measure our progress. Our primary objectives, as outlined in our Strategic Plan, are:

- Drive organic growth, expand margins and improve resident and associate satisfaction through our best-in-class operating platform;
- Allocate capital to accretive opportunities, including development, that strengthen our market mix and portfolio quality;
- Fund growth in an accretive manner while maintaining a strong and flexible balance sheet; and
- Combine these to drive high-quality cash flow, dividend and Net Asset Value (“NAV”) per share growth.

We did not disappoint, with cash flow per share growth of 10% in 2014, annualized dividend per share growth of 11%, NAV per share growth of 9%, and continued outperformance versus all primary objectives set forth in our 2014 Strategic Plan and the original Plan published in early 2013 (see Exhibit A on page 7 for a comparison of actual results versus each Plan).

UDR’s stock performed very well in 2014. Our total shareholder return of 37% was driven by strong price appreciation and an 11% increase in our annualized dividend to \$1.04 per share. This result was in-line with our multifamily REIT peers, but well ahead of the REIT industry.

But, what is in store for the Company? After all, it is difficult to drive a car when looking only in the rearview mirror. This past February, we re-upped the Strategic Plan, this time in the form of a two-year outlook covering the 2015 through 2016 timeframe. Our Strategic Plan remains a cornerstone of our business and we believe the execution of its objectives will continue to drive strong results for the Company and its shareholders. Looking ahead, we are excited about UDR’s prospects and what we intend to accomplish.

2014 Highlights – A Year in Review

Operations

Our best-in-class operating platform represents our greatest asset and competitive advantage in the multifamily space and drives UDR’s primary objective; to generate long-term, sustainable and high-quality cash flow per share growth. In 2014, same-store sales accounted for two-thirds of our 10% total cash flow growth and ended the year above initial expectations and long-term averages. Operations has been, and will continue to be, the driving force behind our business and we take pride in our associates’ ability to generate favorable results year after year.

	2014 ORIGINAL YEAR-OVER-YEAR GUIDANCE	2014 ACTUAL RESULTS
OPERATIONS		
Same-Store Revenue Growth	3.50% - 4.25%	4.30%
Same-Store NOI Growth*	3.75% - 5.00%	5.20%

*See “Management Discussion and Analysis of Financial Condition and Results of Operations” within our Annual Report for the fiscal year ended December 31, 2014 for an explanation of the non-GAAP measures used in this letter, including a reconciliation to the most directly comparable financial measures in accordance with GAAP.

We attribute our better-than-expected same-store results to:

- The strong work ethic of our outstanding team of dedicated associates;
- A complete focus on delivering superior customer service, which translates into lower resident turnover;
- Maintaining our communities in excellent condition through consistent capital reinvestment;
- A diversified, bi-coastal portfolio of communities that boasts superior “walkability” scores⁽¹⁾ and generates above-average results in a variety of economic environments;
- Our willingness to adapt our flexible operating strategy to what the market demands; and
- An emphasis on utilizing new and existing technologies to improve our residents’ experience, drive service efficiencies and enhance our margins. Examples include online payments and service requests, online leasing and a new, highly interactive website that is already turning shoppers into customers.

Ensuring excellence, ongoing innovation and continuous execution of our operating objectives has been, and will continue to be, a primary focus of the entire UDR team.

(1) Walkability scores measure the walkability of a community’s location based on its proximity to retail, entertainment, etc. on a scale from 0 to 100.

Capital Allocation / Portfolio Improvement

Our portfolio is diversified and can be summarized as follows⁽¹⁾:

- 171 communities with 47,934 homes in 22 markets;
- A primarily bi-coastal portfolio with a diversified mix of communities;
- Our largest markets are Orange County and Los Angeles (16% of NOI), New York City (13%), Metropolitan Washington, DC (13%), San Francisco (12%), Seattle (7%) and Boston (5%); and
- Average portfolio monthly revenue per occupied home of \$1,806 per home, which is 55% above the national average of \$1,163.

Our communities generally appeal to renters of choice who demand superior customer service, prefer high-end amenities, and on average, spend only 18% of their income on rent. We target specific markets where residents can live, work and play, and those that exhibit low single-family homeownership affordability and barriers to new supply over time; a great mix of drivers for long-term cash flow growth and value creation.

We are comfortable with our diversified portfolio of communities: 45% class A and 55% class B quality mix and 35% urban and 65% suburban concentration. This mix performs well in a variety of economic environments.

On the capital allocation front, 2014 was a transitional year for UDR. We moved from building an accretive development pipeline to harvesting that accretion in the form of cash flow growth while also backfilling our pipeline to ensure future accretive growth. Development accounted for one-third of our 10% cash flow growth in 2014.

We delivered five communities containing 1,396 homes for a total capital cost of \$480 million in 2014. Upon stabilization, the communities, located in good long-term growth markets such as San Francisco, Orange County and the Metropolitan Washington, DC area, are expected to contribute \$0.025 annually or \$7 million to our Funds from Operations as Adjusted (“FFO as Adjusted”) per share and \$0.95 or \$260 million to our NAV per share, respectively.

At year-end, our underway development pipeline totaled \$875 million of value-accretive projects. Our expectation for \$400 to \$600 million in average annual development spend has not changed and we started an additional \$400 million of projects in 2015, thus far, to keep our value creation machine running at full speed. We continue to view new development as the best use of capital, given the premium valuations on existing multifamily communities and the wide profitability spreads our current projects have enjoyed in our markets, a trend we believe will continue for the foreseeable future (i.e., stabilized development yields versus current market cap rates for new, well-located product).

(1) Data as of 12/31/14 and after excluding the Company's prior interest in its Texas Joint Venture, which was sold in January 2015.

In addition, we expanded our relationship with MetLife in 2014. Our original UDR/MetLife joint venture, in which the Company owned minority interests in 26 high-quality, newly constructed communities, generated an 18% internal rate of return after we increased our ownership interest to 50% in 16 of the properties over the past three years; culminating in the first and second quarters of 2014. Our development relationship expanded as well with the commencement of construction on several communities, including 399 Fremont, a 42-story, \$318 million high-rise in San Francisco. We continue to value our long-term strategic partnership with MetLife and are looking forward to many more years of success with them.

Balance Sheet Management

Our balance sheet continued to improve in 2014, primarily through same-store growth and accretive development coming on-line. During the year we issued \$300 million of 10-year senior unsecured notes at a favorable coupon rate of 3.75% to refinance maturing debt, extend our maturity ladder and reduce our effective interest rate. In addition, we received a credit rating upgrade from Moody's Investor Services to Baa1 and a revised Positive outlook from S&P Rating Services. Our liquidity metrics and access to the debt and equity markets remain strong. We expect our balance sheet will continue to improve in 2015.

	2013 ACTUAL RESULTS	2014 ORIGINAL GUIDANCE	2014 ACTUAL RESULTS
BALANCE SHEET			
Debt-to-Gross Assets	39%	38% - 40%	39%
Net Debt-to-EBITDA ⁽¹⁾	7.0x	6.3x - 6.7x	6.5x
Fixed Charge Interest Coverage	3.1x	3.4x - 3.6x	3.6x

(1) The Company defines **Net Debt-to-EBITDA** as total debt net of cash and cash equivalents divided by EBITDA. EBITDA is defined as net income, excluding the impact of interest expense, real estate depreciation and amortization of wholly owned and other joint venture communities, other depreciation and amortization, noncontrolling interests, net gain on the sale of depreciable property, and RE³ income tax.

Earnings and Dividend Growth

Our intense focus on best-in-class operations, accretive external growth and maintaining a strong, flexible balance sheet does not mean much if we cannot generate robust cash flow growth. In 2014, our earnings were 10% higher than in 2013 and came in at the upper-end of our initial expectations primarily due to strong operating results from both our mature and non-mature communities and accretion from income-producing development communities cited earlier. These will continue to serve as the primary drivers of cash flow growth in 2015.

	2014 ORIGINAL GUIDANCE	2014 ACTUAL RESULTS
EARNINGS AND DIVIDEND GROWTH		
FFO as Adjusted/share ⁽¹⁾	\$1.47 - \$1.53	\$1.52
AFFO/share ⁽²⁾	\$1.30 - \$1.36	\$1.35
Declared Dividend/share	\$1.04	\$1.04

(1) **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 with 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.

(2) **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.

See "Management Discussion and Analysis of Financial Condition and Results of Operations" within our Annual Report for the fiscal year ended December 31, 2014 for an explanation of the non-GAAP measures used in this letter, including a reconciliation to the most directly comparable financial measures in accordance with GAAP.

In addition, we paid our 168th consecutive quarterly dividend in October 2014, representing 42 years of uninterrupted return of capital to our shareholders, and increased our annualized dividend by 11% to \$1.04 per share for the year.

Corporate Governance

Corporate governance, or as we see it, our contract with our stakeholders, is something that we focus intently on. We have always viewed our relationship with shareholders as one of long-term partners, striving to generate the best risk-adjusted total shareholder return over time. Over the past few years, we have improved our corporate governance in numerous ways:

- First, the annual publication of our Strategic Plan, which provides transparency into where we intend to take the Company and measures our progress against past expectations. We believe that our investors deserve to know what we are planning and how we intend to utilize their capital;
- Second, undertaking a meaningful transition to better align management's long-term compensation with that of shareholder returns. For example, two-thirds of the potential payout in our latest long-term incentive plan depends on the Company generating total shareholder returns that at least match the multifamily peer group's median return over a three-year timeframe. Plus, management's holdings in UDR stock remain sizeable; and
- Last, we improved our disclosure in our quarterly reporting and marketing materials (e.g., quarterly supplements, investor presentations, etc.).

Corporate governance is a permanent focus of our management team and Board of Directors and we will continue to consider and implement improvements in the years ahead.

2015 and Updated Strategic Plan

As referenced earlier, we updated our Strategic Plan in February 2015 (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 past Plans and focus on strong operating results, accretive external growth, maintaining a flexible, robust balance sheet and driving cash flow and NAV per share growth.

For 2015, we are forecasting strong AFFO and NAV per share growth as we anticipate that all aspects of our business will continue to perform well.

Finally, I would like to extend my gratitude to all of my fellow UDR associates, the executive team and the Company's Board of Directors for their continued hard work and dedication. Our future prospects are bright, and I look forward to sharing our continued successes with each of you.

Thomas W. Toomey
President and Chief Executive Officer

Exhibit A

How did we perform against our goals? The table below highlights key objectives set forth in our original 3-Year Strategic Plan published in February 2013 and our updated Strategic Plan published in February 2014, and how we have performed versus those expectations.

	2013A-2015E VS. ORIGINAL 2013-2015 THREE-YEAR PLAN ⁽¹⁾	2014A-2016E VS. PRIOR 2014-2016 THREE-YEAR PLAN ⁽²⁾
OPERATIONS		
Same-Store Revenue Growth	+75 bps	+95 bps
Same-Store NOI Growth	+155 bps	+180 bps
CAPITAL ALLOCATION		
Develop. Earn-in versus Expectation	↔	↔
BALANCE SHEET		
Debt-to-Gross Assets	(50) bps	(150) bps
Net Debt-to-EBITDA	(0.25)x	(0.30)x
CASH FLOW AND DIVIDEND GROWTH		
FFO as Adj./sh Growth	+240 bps	+235 bps
AFFO/sh Growth	+205 bps	+165 bps
Dividend/sh Growth	In-Line with AFFO/sh	In-Line with AFFO/sh

(1) Published in February 2013. Aggregate outperformance over the three-year time period cited.
 (2) Published in February 2014. Aggregate outperformance over the three-year time period cited.

Green = Ahead; ↔ = In-Line; Red = Behind

