UDR, Inc.
Form 10-K
February 25, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009
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 or organization)	*(I.R.S. Employer Identification No.)*

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange
6.75% Series G Cumulative Redeemable Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions 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 aggregate market value of the shares of common stock held by non-affiliates on June 30, 2009 was approximately $936.4 million. This calculation excludes shares of common stock held by the registrant s officers and directors and each person known by the registrant to beneficially own more than 5% of the registrant s outstanding shares, as such persons may be deemed to be affiliates. This determination of affiliate status should not be deemed conclusive for any other purpose. As of February 19, 2010 there were 156,058,930 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from the registrant s definitive proxy statement for the Annual Meeting of Stockholders to be held on May 14, 2010.

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PART I

Item 1. BUSINESS

General

UDR, Inc. is a self administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. At December 31, 2009, our consolidated apartment portfolio included 165 communities located in 23 markets, with a total of 45,913 completed apartment homes. In addition, we have an ownership interest in 3,992 apartment homes through our unconsolidated joint ventures.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to in this Report as the Code . To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gains) to our stockholders annually. As a qualified REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our stockholders annually. In 2009, we declared total distributions of $0.845 per common share. Dividends paid in 2009 include a special dividend of $0.96 per common share that was declared in the fourth quarter of 2008 and paid to our common stockholders in the first quarter of 2009. Beginning with the dividend declared in the second quarter of 2009, we reduced the regularly declared quarterly dividend on our common stock to $0.18 per share in order to increase our retained capital.

	Dividends Declared in 2009	Dividends Paid in 2009
First Quarter	$ 0.305	$ 1.290
Second Quarter	0.180	0.305
Third Quarter	0.180	0.180
Fourth Quarter	0.180	0.180
Total	$ 0.845	$ 1.955

We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our corporate offices are located at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado. As of February 12, 2010, we had 1,280 full-time employees and 83 part-time employees.

Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty L.P., a Delaware limited partnership, and RE3, our subsidiary that focuses on development, land entitlement and short-term hold investments. Unless the context otherwise requires, all references in this Report to we, us, our, the Company, or UDR refer collectively to UDR, Inc. its subsidiaries, and its consolidated joint ventures.

Business Objectives

Our principal business objective is to maximize the economic returns of our apartment communities to provide our stockholders with the greatest possible total return and value. To achieve this objective, we intend to continue to pursue the following goals and strategies:

- own and operate apartments in markets that have the best growth prospects based on favorable job formation and low home affordability, thus enhancing stability and predictability of returns to our stockholders;
- manage real estate cycles by taking an opportunistic approach to buying, selling, renovating, and building apartment communities;
- empower site associates to manage our communities efficiently and effectively;
- measure and reward associates based on specific performance targets; and
- manage our capital structure to help enhance predictability of earnings and dividends.

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2009 Accomplishments

Repaid $159.6 million of secured debt and $658.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The $658.2 million of unsecured debt includes the prepayment of our $240 million term loan, $141.9 million for maturing medium-term notes and $276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of $37.5 million in aggregate principle amount of our 8.50%, debentures due September 15, 2024 for $41.2 million of cash.

We repurchased unsecured debt with a notional amount of $238.9 million for $222.3 million, which is included in the $658.2 million above, resulting in a gain on extinguishment of $9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035.

We closed on a $200 million secured credit facility. At December 31, 2009, $106.9 million of the amount drawn under the facility matures October 2019 and carries a fixed rate of 5.38% and $88.9 million of the amount drawn under the facility matures December 2019 and carries a fixed interest rate of 5.16%. The Company has one year from September 11, 2009 to draw on the remaining $4.2 million of capacity.

Initiated an At the Market equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of December 31, 2009, the Company sold 4,460,032 shares of common stock under the program at an average price per share of $15.48, for aggregate gross proceeds of approximately $69.1 million. Aggregate net proceeds from such sales, after deducting commissions paid to the sales agents of approximately $1.4 million and related issuance costs of approximately $500,000, were approximately $67.2 million.

We established a joint venture with Kuwait Finance House for the investment of up to $450.0 million in multifamily properties located in key, high barrier to entry markets.

We acquired a newly constructed community with 289 units located in Dallas, Texas for approximately $28.5 million.

We completed development on three wholly-owned communities with 831 apartment homes at a total cost of $119.5 million.

UDR s Strategies and Vision

UDR previously announced its vision to be the innovative multifamily public real estate investment of choice. We identified the following strategies to guide decision-making and growth:

1. Strengthen our portfolio

2. Continually improve operations

3. Maintain access to low-cost capital

Strengthen our Portfolio

UDR is focused on increasing its presence in markets with favorable job formation, low single-family home affordability, and a favorable demand/supply ratio for multifamily housing. Portfolio decisions consider third-party research, taking into account job growth, multifamily permitting and housing affordability.

In 2008, UDR sold a portfolio of properties in 86 communities for total consideration of approximately $1.7 billion. This portfolio sale dramatically accelerated our transformation to focus on markets that have the best growth prospects based on favorable job formation and low single-family home affordability. At

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December 31, 2009, approximately 56.8% of the Company s same store net operating income was provided by our communities located in California, Metropolitan Washington, D.C., Oregon and Washington State.

Acquisitions and Dispositions

During 2009, in conjunction with our strategy to strengthen our portfolio, UDR acquired a new constructed community with 289 apartment homes for approximately $28.5 million. UDR targets apartment community acquisitions in markets where job growth expectations are favorable, single-family home affordability is low, and the demand/supply ratio for multi-family housing is favorable.

When evaluating potential acquisitions, we consider:

population growth, cost of alternative housing, overall potential for economic growth and the tax and regulatory environment of the community in which the property is located;

geographic location, including proximity to jobs, entertainment, transportation, and our existing communities which can deliver significant economies of scale;

construction quality, condition and design of the community;

current and projected cash flow of the property and the ability to increase cash flow;

potential for capital appreciation of the property;

ability to increase the value and profitability of the property through upgrades and repositioning;

terms of resident leases, including the potential for rent increases;

occupancy and demand by residents for properties of a similar type in the vicinity;

prospects for liquidity through sale, financing, or refinancing of the property; and

competition from existing multifamily communities and the potential for the construction of new multifamily properties in the area.

We regularly monitor our assets to increase the quality and performance of our portfolio. Factors we consider in deciding whether to dispose of a property include:

current market price for an asset compared to projected economics for that asset;

potential increases in new construction in the market area;

areas where the economy is not expected to grow substantially; and

markets where we do not intend to establish long-term concentration.

We did not have any dispositions of properties in 2009.

The following table summarizes our apartment community acquisitions, apartment community dispositions, and our year-end ownership position for the past five years (*dollars in thousands*):

	2009	2008	2007	2006	2005
Homes acquired	**289**	4,558	2,671	2,763	2,561
Homes disposed		25,684	7,125	7,653	6,352
Homes owned at December 31	**45,913**	44,388	65,867	70,339	74,875
Total real estate owned, at cost	**$ 6,315,047**	$ 5,831,753	$ 5,956,481	$ 5,820,122	$ 5,512,424

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Development Activities

The following wholly owned projects were under development as of December 31, 2009:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date
Tribute Raleigh, NC	359		$ 42,644	$ 46,500	$ 129,526	1Q10
Belmont Dallas, TX	465	176	62,516	62,900	135,269	2Q10
Vitruvian Park Addison, TX	392		59,432	66,500	169,643	3Q10
Signal Hill Woodbridge, VA	360		52,323	82,700	229,722	3Q10
	1,576	176	$ 216,915	$ 258,600	$ 164,086	

Redevelopment Activities

During 2009, we continued to reposition properties in targeted markets where we concluded there was an opportunity to add value. During the year ended December 31, 2009, we incurred $33.5 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings.

Joint Venture Activities

The Company has an interest in a consolidated joint venture, which has the following project under development as of December 31, 2009 (amounts are based on 100% ownership interest):

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date(a) (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date
Elements Too Bellevue, WA	274	259	$ 120,057	$ 123,000	$ 369,343	1Q10

(a) This represents cost incurred to date and does not include fair value and other-than-temporary decline in value adjustments.

On October 16, 2009, our partner in the joint venture, noted in the table above, resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. As a result of UDR s control of the joint venture, the Company is required to consolidate the joint venture. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Elements Too for $3.2 million (outstanding at December 31, 2009). Upon the closing of the agreement, the Company s equity interest in Elements Too will be 98%.

UDR is a partner with an unaffiliated third party in a joint venture (989 Elements) which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was $11.8 million. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in 989 Elements for $7.8 million (outstanding at December 31, 2009). Concurrently, our partner resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company s equity interest in 989 Elements will increase to 98%.

UDR is a partner with an unaffiliated third party in a joint venture (Bellevue Plaza) which owns an operating retail site in Bellevue, Washington. The Company initially planned to develop a 430 home high rise apartment building with ground floor retail on an existing operating retail center. However, during the year ended December 31, 2009, the joint venture decided to continue to operate the retail property as opposed to developing a high rise apartment building on the site. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Bellevue Plaza for $5.2 million (outstanding at December 31, 2009). In addition, our partner resigned as managing member and appointed UDR as managing member. Concurrent with its resignation, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company s equity interest in Bellevue Plaza will increase from 49% to 98%.

For additional information regarding these consolidated joint ventures, see Note 4 Joint Ventures to the Consolidated Financial Statements included in this Report.

During 2009, the Company established a joint venture with Kuwait Finance House for the investment of up to $450.0 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180.0 million of which the Company s maximum equity contribution will be 30% or $54.0 million when fully invested. At closing, we owned 30% of the joint venture. Our investment at December 31, 2009 was $242,000. At December 31, 2009, the joint venture did not own any multi-family properties. The joint venture intends to be fully invested over a two year investment period, and the Company will receive asset and property management fees from the jont venture.

Continually Improve Operations

The Company continues to make progress on automating its business as a way to drive operating efficiencies and to better meet the changing needs of our residents. Since its launch in January 2009, UDR residents have been utilizing the resident internet portal on our website. UDR s residents have access to conduct business with us 24 hours a day, 7 days a week to pay rent on line and to submit service requests. As a result of transforming operations through technology our residents get the convenience they want and our operating teams have become more efficient. These improvements in adopting the web as a way to conduct business with the Company have also resulted in a decline in marketing and advertising costs and improved cash management.

During 2009, UDR continually enhanced *www.udr.com* and individual community websites through deploying an innovative customized room painter selection program, apartment floor selector application, and updating the websites source code to make the webpages load faster. In addition to improvements to UDR.com, we also added an augmented reality apartment search application, an iPhone apartment search application and soon to be released Android, BlackBerry and Palm Pre apartment search applications. These enhancements have increased overall web visitor traffic to over 1.9 million visitors and almost 1.2 million organic search engine visitors which contributed to a 78% year-over-year lead stream increase.

Maintaining Access to Low-Cost Capital

We seek to maintain a capital structure that allows us to seek, and not just react to, opportunities available in the marketplace. We have structured our borrowings to stagger our debt maturities and to be able to opportunistically access both secured and unsecured debt.

Special Dividend

On November 5, 2008, our Board of Directors declared a dividend on a pre-adjusted basis of $1.29 per share (the Special Dividend). The Special Dividend was paid on January 29, 2009 to stockholders of record on December 9, 2008. The dividend represented the Company s fourth quarter recurring distribution of $0.33 per share and an additional special distribution of $0.96 per share due to taxable income arising from our dispositions occurring during the year. Subject to the Company s right to pay the entire Special Dividend in cash, stockholders had the option to make an election to receive payment in cash or in shares, however, the aggregate amount of cash payable to stockholders, other than cash payable in lieu of fractional shares, would not be less than $44.0 million.

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The Special Dividend, totaling $177.1 million, was paid on 137,266,557 shares issued and outstanding on the record date. Approximately $133.1 million of the Special Dividend was paid through the issuance of 11,358,042 shares of common stock, which was determined based on the volume weighted average closing sales price of our common stock of $11.71 per share on the NYSE on January 21, 2009 and January 22, 2009. In January 2010, the Financial Accounting Standards Board s (FASB) issued Accounting Standards Update 2010-01, *Accounting for Distributions to Shareholders with Components of Stock and Cash* (ASU 2010-01), which considers distributions that contain components of cash and stock and allows shareholders to select their preferred form of distribution as a stock dividend. Such a distribution is treated as a stock issuance on the date the dividend is paid. At December 31, 2008, the Company accrued $133.1 million of distribution payable related to the Special Dividend. ASU 2010-01 is effective for the Company on December 15, 2009 and should be applied on a retrospective basis. As a result, the Company reversed the effect of the issuance of additional shares of common stock pursuant to the Special Dividend, which was retroactively reflected in each of the historical periods presented within the Company s Form 8-K filed with the Securities and Exchange Commission, or the SEC on May 22, 2009, and effectively issued these shares on January 29, 2009 (the payment date of the Special Dividend).

Financing Activities

As part of our plan to strengthen our capital structure, we utilized proceeds from debt and equity offerings and refinancings to extend maturities, pay down existing debt, and acquire apartment communities. The following is a summary of our major financing activities in 2009:

Repaid $159.6 million of secured debt and $658.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The $658.2 million of unsecured debt includes the prepayment of our $240 million term loan, $141.9 million for maturing medium-term notes and $276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of $37.5 million in aggregate principle amount of our 8.50% debentures due September 15, 2024 for $41.2 million of cash.

Repurchased unsecured debt with a notional amount of $238.9 million for $222.3 million, which is included in the $658.2 million above, resulting in a gain on extinguishment of $9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035.

Closed on a $200 million secured credit facility. At December 31, 2009, $106.9 million of the amount drawn under the facility matures October 2019 and carries a fixed rate of 5.38% and $88.9 million of the amount drawn under the facility matures December 2019 and carries a fixed interest rate of 5.16%. The Company has one year from September 11, 2009 to draw on the remaining $4.2 million of capacity.

Repurchased 997,738 shares of our 6.75% Series G Cumulative Redeemable Preferred Stock for $21.5 million, less than their liquidation value of $24.9 million.

Initiated an At the Market equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of December 31, 2009, the Company sold 4,460,032 shares of common stock under the program at an average price per share of $15.48, resulting in gross proceeds of approximately $69.1 million. Aggregate net proceeds from such sales, after deducting commissions paid to the sales agents of approximately $1.4 million and related issuance costs of approximately $500,000, were approximately $67.2 million.

Markets and Competitive Conditions

At December 31, 2009, 56.8% of the Company s same store net operating income was generated from apartment homes located in California, Metropolitan Washington D.C., Oregon, and Washington State. We believe that this diversification increases investment opportunity and decreases the risk associated with cyclical local real estate markets and economies, thereby increasing the stability and predictability of our earnings.

Competition for new residents is generally intense across all of our markets. Some competing communities offer features that our communities do not have. Competing communities can use concessions or lower rents to obtain temporary competitive advantages. Also, some competing communities are larger or newer than our communities. The competitive position of each community is different depending upon many factors including sub-market supply and demand. In addition, other real estate investors compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, public and private real estate companies, investment companies and other public and private apartment REITs, some of which may have greater resources, or lower capital costs, than we do.

We believe that, in general, we are well-positioned to compete effectively for residents and investments. We believe our competitive advantages include:

- a fully integrated organization with property management, development, redevelopment, acquisition, marketing, sales and financing expertise;
- scalable operating and support systems, which include automated systems to meet the changing electronic needs of our residents and to effectively focus on our Internet marketing efforts;
- purchasing power;
- geographic diversification with a presence in 23 markets across the country; and
- significant presence in many of our major markets that allows us to be a local operating expert.

Moving forward, we will continue to emphasize aggressive lease management, improved expense control, increased resident retention efforts and the alignment of employee incentive plans tied to our bottom line performance. We believe this plan of operation, coupled with the portfolio s strengths in targeting renters across a geographically diverse platform, should position us for continued operational improvement in spite of the difficult economic environment.

Communities

At December 31, 2009, our apartment portfolio included 165 consolidated communities having a total of 45,913 completed apartment homes and an additional 1,415 under development. The overall quality of our portfolio enables us to raise rents and to attract residents with higher levels of disposable income who are more likely to accept the transfer of expenses, such as water and sewer costs, from the landlord to the resident. In addition, it potentially reduces recurring capital expenditures per apartment home, and therefore should result in increased cash flow in the future.

Same Community Comparison

We believe that one pertinent qualitative measurement of the performance of our portfolio is tracking the results of our same store community s net operating income (NOI), which is total rental revenue, less rental expenses excluding property management and other operating expenses. Our same store population are operating communities which we own and have stabilized occupancy, revenues and expenses as of the beginning of the prior year. For the year ended December 31, 2009, our same store NOI decreased by $6.6 million or 2.2% compared to the prior year. The decrease in NOI for the 33,166 apartment homes which make up the same store population was driven by a decrease in revenue rental rates which was partially offset by increased occupancy and a decrease in expenses.

Revenue growth in 2010 may be impacted by general adverse conditions affecting the economy, reduced occupancy rates, increased rental concessions, increased bad debt and other factors which may adversely impact our ability to increase rents.

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Tax Matters

We have elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, we must continue to meet certain tests that, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than net capital gains) to our stockholders annually. Provided we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent such net income is distributed to our stockholders annually. 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 utilize taxable REIT subsidiaries to engage in activities that REITs may be prohibited from performing, including the provision of management and other services to third parties and the conduct of certain nonqualifying real estate transactions. Taxable REIT subsidiaries generally are taxable as regular corporations and therefore are subject to federal, state and local income taxes.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of 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 any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2009.

Environmental Matters

Various environmental laws govern certain aspects of the ongoing operation of our communities. Such environmental laws include those regulating the existence of asbestos-containing materials in buildings, management of surfaces with lead-based paint (and notices to residents about the lead-based paint), use of active underground petroleum storage tanks, and waste-management activities. The failure to comply with such requirements could subject us to a government enforcement action and/or claims for damages by a private party.

To date, compliance with federal, state and local environmental protection regulations has not had a material effect on our capital expenditures, earnings or competitive position. We have a property management plan for hazardous materials. As part of the plan, Phase I environmental site investigations and reports have been completed for each property we acquire. In addition, all proposed acquisitions are inspected prior to acquisition. The inspections are conducted by qualified environmental consultants, and we review the issued report prior to the purchase or development of any property. Nevertheless, it is possible that our environmental assessments will not reveal all environmental liabilities, or that some material environmental liabilities exist of which we are unaware. In some cases, we have abandoned otherwise economically attractive acquisitions because the costs of removal or control of hazardous materials have been prohibitive or we have been unwilling to accept the potential risks involved. We do not believe we will be required to engage in any large-scale abatement at any of our properties. We believe that through professional environmental inspections and testing for asbestos, lead paint and other hazardous materials, coupled with a relatively conservative posture toward accepting known environmental risk, we can minimize our exposure to potential liability associated with environmental hazards.

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential residents or purchasers of the communities any known lead paint hazards and imposes treble damages for failure to provide such notification. In addition, lead based paint in any of the communities may result in lead poisoning in children residing in that community if chips or particles of such lead based paint are ingested, and we may be held liable under state laws for any such injuries caused by ingestion of lead based paint by children living at the communities.

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been

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notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on us and our financial condition.

Insurance

We carry comprehensive general liability coverage on our communities, with limits of liability customary within the industry to insure against liability claims and related defense costs. We are also insured, with limits of liability customary within the industry, against the risk of direct physical damage in amounts necessary to reimburse us on a replacement cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period.

Executive Officers of the Company

The following table sets forth information about our executive officers as of February 15, 2010. The executive officers listed below serve in their respective capacities at the discretion of our Board of Directors.

Name	Age	Office		Since
Thomas W. Toomey	49	Chief Executive Officer, President and Director		2001
Warren L. Troupe	56	Senior Executive Vice President		2008
W. Mark Wallis	59	Senior Executive Vice President		2001
Richard A Giannotti	54	Executive Vice President	Redevelopment	1985
Matthew T. Akin	42	Senior Vice President	Acquisitions & Dispositions	1994
Mark M. Culwell, Jr.	58	Senior Vice President	Development	2006
Jerry A. Davis	47	Senior Vice President	Property Operations	2008
David L. Messenger	39	Senior Vice President	Chief Financial Officer	2008
Katie Miles-Ley	48	Senior Vice President	Human Resources	2007
Thomas A. Spangler	49	Senior Vice President	Business Development	1998
S. Douglas Walker	54	Senior Vice President	Transactions	2006

Set forth below is certain biographical information about our executive officers.

Mr. Toomey spearheads the vision and strategic direction of the Company and oversees its executive officers. He joined us in February 2001 as President, Chief Executive Officer and Director. Prior to joining us, Mr. Toomey was with Apartment Investment and Management Company (AIMCO), where he served as Chief Operating Officer for two years and Chief Financial Officer for four years. During his tenure at AIMCO, Mr. Toomey was instrumental in the growth of AIMCO from 34,000 apartment homes to 360,000 apartment homes. He has also served as a Senior Vice President at Lincoln Property Company, a national real estate development, property management and real estate consulting company, from 1990 to 1995. He currently serves as a member of the board of the National Association of Real Estate Investment Trusts (NAREIT), the National Multi Housing Council (NMHC), a member of the Real Estate Roundtable, a member of the Pension Real Estate Association (PREA), an Urban Land Institute Governor and a trustee of the Oregon State University Foundation.

Mr. Troupe oversees all financial, treasury, tax and legal functions of the Company. He joined us in March 2008 as Senior Executive Vice President. In May 2008, he was appointed the Company s Corporate Compliance Officer and in October 2008 he was named the Company s Corporate Secretary. Prior to joining us, Mr. Troupe was a partner with Morrison & Forester LLP from 1997 to 2008, where his practice focused on all aspects of corporate finance including, but not limited to, public and private equity offerings, traditional loan structures, debt placements to subordinated debt financings, workouts and recapitalizations. While at Morrison & Forester LLP he represented both public and private entities in connection with merger and

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acquisition transactions, including tender offers, hostile proxy contests and negotiated acquisitions. He currently serves as a member of NMHC and a member of PREA.

Mr. Wallis oversees the areas of acquisitions, dispositions, asset quality and development. He joined us in April 2001 as Senior Executive Vice President responsible for acquisitions, dispositions, development and redevelopment. Prior to joining us, Mr. Wallis was the President of Golden Living Communities, a company he established in 1995 to develop senior housing. From 1980 to 1995, Mr. Wallis was Executive Vice President of Finance and Administration at Lincoln Property Company where he handled interim and permanent financing for office, retail, multi-family and mixed-use developments. His responsibilities also included the negotiation of acquisitions, dispositions, and management contracts, and he oversaw the direction of the national accounting and computer services divisions. He currently serves as a member of the Board for NMHC and serves on the Board of Trustees for Harding University.

Mr. Giannotti oversees redevelopment projects and acquisition efforts and development projects in the mid-Atlantic region. He joined us in September 1985 as Director of Development and Construction. He was appointed Assistant Vice President in 1988, Vice President in 1989, and Senior Vice President in 1996. In 1998, he was assigned the additional responsibilities of Director of Development for the Eastern Region. In 2003, Mr. Giannotti was promoted to Executive Vice President.

Mr. Akin oversees the Company s acquisition and disposition efforts. He joined us in 1996 in connection with the merger with SouthWest Property Trust, where he had been a Financial Analyst since 1994.

Mr. Culwell oversees all aspects of in-house development, joint venture development and pre-sale opportunities. He joined us in June 2006 as Senior Vice President Development. Prior to joining us, Mr. Culwell served as Regional Vice President of Development for Gables Residential, where he established a $300 million pipeline of new development and redevelopment opportunities. Before joining Gables Residential, Mr. Culwell had over 30 years of real estate experience, including working for Elsinore Group, LLC, Lexford Residential Trust, Cornerstone Housing Corporation and Trammell Crow Residential Company, where his development and construction responsibilities included site selection and acquisition, construction oversight, asset management, as well as obtaining financing for acquisitions and rehabilitations.

Mr. Davis oversees property operations. He originally joined us in March 1989 as Controller and subsequently moved into Operations as an Area Director and in 2001, he accepted the position of Chief Operating Officer of JH Management Co., a California-based apartment company. He returned to the Company in March 2002 and in 2008, Mr. Davis was promoted to Senior Vice President Property Operations. He began his career in 1984 as a Staff Accountant for Arthur Young & Co.

Mr. Messenger oversees the areas of accounting, risk management, financial planning and analysis, property tax administration and SEC reporting. He joined us in August 2002 as Vice President and Controller. In March 2006, Mr. Messenger was appointed Vice President and Chief Accounting Officer and in January 2007, while retaining the Chief Accounting Officer title, he was promoted to Senior Vice President. In June 2008 he was named Chief Financial Officer.

Ms. Miles-Ley oversees employee relations, organizational development, succession planning, staffing and recruitment, compensation, training and development, benefits administration, HRIS and payroll. She joined us in June 2007 as Senior Vice President Human Resources. Prior to joining us, Ms. Miles-Ley was with Starz Entertainment Group LLC from 2001 to 2007 where she served as Vice President, Human Resources & Organizational Development. Ms. Miles-Ley had over twenty years of experience with both domestic and international work forces.

Mr. Spangler oversees utilities management, procurement and non-rental revenue programs. He joined us in August 1998 as Assistant Vice President, Operational Planning and Asset Management, and was promoted to Vice President, Director of Operational Planning and Asset Management that same year. He was promoted to Senior Vice President Business Development in February 2003. Prior to joining us, Mr. Spangler served for nine years as an Asset Manager for Summit Enterprises, Inc. of Virginia, a private investment management firm.

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Mr. Walker oversees the Company s Asset Quality, Kitchen & Bath and sustainability programs in addition to all non-residential owned and leased real estate. He joined us in May 2006 as Senior Vice President Transactions. He has authored Green Building articles for industry publications and has been recognized by the EPA and the Department of Energy for his contributions to the commercial real estate industry. Prior to joining us, Mr. Walker served as a consultant to the multi-family industry.

Available Information

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports on the day of filing with the SEC on our website at *www.udr.com*, or by sending an e-mail message to *ir@udr.com.*

NYSE Certification

On May 19, 2009 our Chief Executive Officer submitted to the New York Stock Exchange the annual certification required by Section 303A.12(a) of the NYSE Listed Company Manual regarding our compliance with NYSE corporate governance listing standards. In addition, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibits 31.1 and 31.2, respectively, to this Report.

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.

Risks Related to Our Real Estate Investments and Our Operations

Unfavorable Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels, Rental Revenues and the Value of Our Real Estate Assets. Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions generally may significantly affect our occupancy levels, our rental rates and collections, the value of the properties and our ability to strategically acquire or dispose of apartment communities on economically favorable terms. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to pay our indebtedness and to distribute to our stockholders, which could adversely affect our financial condition and the market value of our securities. Factors that may affect our occupancy levels, our rental revenues, and/or the value of our properties include the following, among others:

- downturns in the national, regional and local economic conditions, particularly increases in unemployment;

- 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 options more attractive;

local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;

declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;

changes in market rental rates;

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the timing and costs associated with property improvements, repairs or renovations;

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.

We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We have periodically disposed of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own, and purchasers may not be willing to pay prices acceptable to us. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a materially adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities:

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 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; and

federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

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, condominiums 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.

We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies. We have selectively acquired in the past, and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

we may be unable to obtain financing for acquisitions on favorable terms or at all;

even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;

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 may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability; and

we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

We do not expect to acquire apartment communities at the rate we have in prior years, which may limit our growth and have a material adverse effect on our business and the market value of our securities. In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other public and private apartment REITs, have competed with us to

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acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect growth.

Development and Construction Risks Could Impact Our Profitability. In the past we have selectively pursued the development and construction of apartment communities, and we intend to do so in the future as appropriate opportunities arise. Development activities have been, and in the future may be, conducted through wholly owned affiliated companies or through joint ventures with unaffiliated parties. Our development and construction activities are subject to the following risks:

- we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all which could cause us to delay or even abandon potential developments;

- 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, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;

- yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than pro forma;

- 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 communities 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.

In some cases in the past, the costs of upgrading acquired communities 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 May Not Be Adequately 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 which may not be adequately covered under our insurance program. In addition, we will sustain losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

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 our stockholders.

Failure to Succeed in New Markets May Limit Our Growth. We have acquired in the past, and we may acquire in the future if appropriate opportunities arise, apartment communities that are outside of our existing markets. Entering into new markets may expose us to a variety of risks, 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 hire and retain key personnel;

lack of familiarity with local governmental and permitting procedures; and

inability to achieve budgeted financial results.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. Although inflation has not materially impacted our operations in the recent past, increased inflation could have a more pronounced negative impact on our debt interest and general and administrative expenses, as these costs could increase at a rate higher than our rental rates.

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 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.

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 net operating income 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 that may be 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.

Actual or Threatened Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. Actual or threatened 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 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 control 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.

Our Success Depends on Our Senior Management. Our success depends upon the retention of our senior management, whose continued service in not guaranteed. We may not be able to find qualified replacements for the individuals who make up our senior management if their services should no longer be available to us. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Indebtedness and Financing

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;
- rental expenses, including real estate taxes and utilities;
- changes in interest rates and the availability of financing; and
- changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multi-family housing.

Expenses associated with our investment in an apartment 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.

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. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

Financing Could be Impacted by Negative Capital Market Conditions. Recently, domestic financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the subprime mortgage lending sector of the credit market, liquidity has tightened in overall domestic financial markets, including the investment grade debt and equity capital markets. Consequently, there is greater risk that the financial institutions we do business with could experience disruptions that would negatively affect our ability to obtain financing.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit, Impact Our Tenant Base, and Have other Adverse Effects on Us and the Market Price of Our Stock. Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our common or preferred stock. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of our common shares and other adverse effects on us and our business.

Prospective buyers of our properties may also experience difficulty in obtaining debt financing which might make it more difficult for us to sell properties at acceptable pricing levels. Current tightening of credit in financial markets and increasing unemployment may also adversely affect the ability of tenants to meet their lease obligations and for us to continue increasing rents on a prospective basis. Disruptions in the credit and financial markets may also have other adverse effects on us and the overall economy.

The Soundness of Financial Institutions Could Adversely Affect Us. We have relationships with many financial institutions, including lenders under our credit facilities, and, from time to time, we execute transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to complete transactions as intended, which could adversely affect our business and results of operations.

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 December 31, 2009, we had approximately $709.2 million of variable rate indebtedness outstanding, which constitutes approximately 20.7% 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. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. 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.

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.

Risks Related to Tax Laws

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 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 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 two 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.

REITs May Pay a Portion of Dividends in Common Stock. In December 2009, the Internal Revenue Service issued Revenue Procedure 2010-12, which expanded previously issued temporary guidance relating to certain stock distributions made by publicly traded REITs to satisfy their tax-related distribution requirements. This expanded temporary guidance is intended to permit REITs to limit cash distributions in order to maintain liquidity during the current downturn in economic conditions. Under this expanded guidance, for stock dividends declared on or after January 1, 2008 and before December 31, 2012, with respect to a taxable year ending on or before December 31, 2011, the Internal Revenue Service will treat a distribution of stock by a publicly traded REIT, pursuant to certain stockholder elections to receive either stock or cash, as a taxable distribution of property, provided that, among other conditions, (i) the total amount of cash available for distribution is not less than 10% of the aggregate declared distribution, and (ii) if too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash corresponding to its respective entitlement under the declaration, but in no event will any such electing stockholder receive less than 10% of the stockholder s entire entitlement in money. The amount of such stock distribution will generally be treated as equal to the amount of cash that could have been received instead. If we pay a portion of our dividends in shares of our common stock pursuant to this temporary guidance, our stockholders may receive less cash than they received in distributions in prior years and the market value of our securities may decline.

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.

REIT Distribution Requirements Limit Our Available Cash. As a REIT, we are subject to annual distribution requirements, which limit the amount of cash we retain for other business purposes, including amounts to fund our growth. We generally must distribute annually at least 90% of our net REIT taxable income, excluding any net capital gain, in order for our distributed earnings not to be subject to corporate income tax. We intend to make distributions to our stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

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 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 and 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.

We Could Face Possible State and Local Tax Audits and Adverse Changes in State and Local Tax Laws. As discussed in the risk factors above, because we are organized and qualify as a REIT we are generally not subject to federal income taxes, but we are subject to certain state and local taxes. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and municipalities in which we own apartment communities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional state and local taxes. These increased tax costs could adversely affect our financial condition and the amount of cash available for the payment of distributions to our stockholders. In the normal course of business, entities through which we own real estate may also become subject to tax audits. If such entities become subject to state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition.

Risks Related to Our Organization and Our Shares

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 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.

The market price per share of our common stock may decline or fluctuate significantly in response to many factors, including:

- general market and economic conditions,
- actual or anticipated variations in our quarterly operating results or dividends or our payment of dividends in shares of our stock,
- changes in our funds from operations or earnings estimates,
- difficulties or inability to access capital or extend or refinance existing debt,
- decreasing (or uncertainty in) real estate valuations,
- publication of research reports about us or the real estate industry,
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies),
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of our stock to demand a higher annual yield from future dividends,

a change in analyst ratings,

adverse market reaction to any additional debt we incur in the future,

speculation in the press or investment community, terrorist activity which may adversely affect the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending,

governmental regulatory action and changes in tax laws, and

the issuance of additional shares of our common stock, or the perception that such sales might occur, including under our at-the-market equity distribution program.

Many of the factors listed above are beyond our control. These factors may cause the market price of shares of our common stock to decline, regardless of our financial condition, results of operations, business or our prospects.

We May Change the Dividend Policy for Our Common Stock in the Future. The decision to declare and pay dividends on our common stock in the future, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of our Board of Directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our Board of Directors considers relevant. Any change in our dividend policy could have a material adverse effect on the market price of our common stock.

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 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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

At December 31, 2009, our consolidated apartment portfolio included 165 communities located in 23 markets, with a total of 45,913 completed apartment homes.

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We lease approximately 39,000 square feet of office space in Highlands Ranch, Colorado, for our corporate headquarters and lease an additional 42,000 square feet for three of our regional offices throughout the country. The table below sets forth a summary of our real estate portfolio by geographic market at December 31, 2009.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2009

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Encumbrances (In thousands)	Cost per Home	Average Physical Occupancy	Average Home Size Square Feet
WESTERN REGION								
Orange County, CA	14	4,363	12.7%	$ 801,467	$ 327,274	$ 183,696	95.2%	832
San Francisco, CA	11	2,339	8.4%	530,177	101,167	226,668	92.8%	805
Los Angeles, CA	8	1,678	6.8%	431,197	176,056	256,971	94.0%(a)	983
Seattle, WA	10	1,891	5.7%	357,192	72,132	188,891	95.4%	889
San Diego, CA	5	1,123	2.7%	173,417	40,352	154,423	95.3%	797
Monterey Peninsula, CA	7	1,565	2.4%	150,928		96,440	94.6%	724
Inland Empire, CA	3	1,074	2.4%	149,573	77,208	139,267	94.8%	886
Sacramento, CA	2	914	1.1%	67,384	48,563	73,724	93.4%	820
Portland, OR	3	716	1.1%	68,710	46,933	95,964	95.8%	918
MID-ATLANTIC REGION								
Metropolitan DC	12							