UDR, Inc.
Form 10-K
February 26, 2008

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, 2007
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
8.50% Monthly Income Notes Due 2008	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 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 other 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 29, 2007 was approximately $2.2 billion. 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 15, 2008 there were 133,347,522 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 29, 2008.

TABLE OF CONTENTS

		PAGE
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	20
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	21
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	26
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	42
Item 8.	Financial Statements and Supplementary Data	42
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A.	Controls and Procedures	42
Item 9B.	Other Information	43
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	43
Item 11.	Executive Compensation	43
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
Item 13.	Certain Relationships and Related Transactions, and Director Independence	44
Item 14.	Principal Accountant Fees and Services	44
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	44

Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P.
Computation of Ratio of Earnings to Fixed Charges
Subsidiaries
Consent of Independent Registered Public Accounting Firm
Rule 13a-14(a) Certification of the CEO
Rule 13a-14(a) Certification of the CFO
Section 1350 Certification of the CEO
Section 1350 Certification of the CFO

Table of Contents

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, 2007, our apartment portfolio included 234 communities located in 30 markets, with a total of 65,867 completed apartment homes.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or 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 gain) 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 2007, we declared total distributions of $1.32 per common share to our stockholders, which represents our 31st year of consecutive dividend increases to our stockholders.

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 15, 2008, we had 1,787 full-time employees and 132 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 RE^3, 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. and its subsidiaries.

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 single-family home affordability, thus enhancing stability and predictability of returns to our stockholders,
- manage real estate cycles by taking an opportunistic approach to buying, selling, 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 ensure predictability of earnings and dividends.

2007 Accomplishments

We increased our common stock dividend for the 31st consecutive year.

We completed over $1.7 billion of capital transactions in 2007.

We acquired 2,671 apartment homes in 13 communities for approximately $404.1 million, six parcels of land for $70.7 million, and invested $11.8 million in an operating joint venture.

Table of Contents

We completed the disposition of 12 apartment communities with 3,435 apartment homes for an aggregate sales price of approximately $403.0 million, and one parcel of land for $4.5 million. In addition, we sold 61 condominiums within two communities for a total consideration of $10.4 million.

We established a $650 million joint venture with a large domestic institutional partner. The venture owns a portfolio of 3,690 stabilized homes located in nine multi-family communities in Austin, Dallas and Houston, Texas, and another 302 homes currently under development in Dallas, Texas. UDR realized proceeds of $326.2 million for the properties and has a 20% interest in the venture.

UDR s Strategies and Vision

In the first quarter of 2007, UDR announced its vision to be the innovative multifamily real estate investment of choice. We identified four strategies to guide decision-making and accelerated growth:

1. Strengthen our portfolio

2. Expand RE^3

3. Transform operations

4. Source low-cost capital

Strengthen our Portfolio

UDR is focused on increasing its presence in markets with strong job growth, low housing 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 January 2008, UDR announced that it has entered into a contract to sell 25,684 apartment homes in 86 communities for $1.7 billion. The transaction is expected to close on or about March 3, 2008, at which time UDR will receive $1.5 billion in cash and a note in the principal amount of $200 million. The note matures on the same date as the buyer s senior financing, may be prepaid 14 months from the date of the note, bears interest at a fixed rate of 7.5% per annum and is secured by a pledge and security agreement and a guarantee. Closing is subject to customary closing conditions. Upon completion of the transaction, UDR will own 40,183 homes in 148 communities.

This portfolio sale dramatically accelerates UDR s transformation to focus on markets that have the best growth prospects based on favorable job formation and low single-family home affordability. Upon completion of the sale, UDR expects that approximately 90% of its net operating income will be generated from homes located in markets on the Pacific Coast, the Virginia-Washington, D.C. corridor and Florida.

Acquisitions

During 2007, in conjunction with our strategy to strengthen our portfolio, UDR acquired 13 communities with 2,671 apartment homes at a total cost of approximately $404.1 million, including the assumption of secured debt. In addition, we purchased six parcels of land for $70.7 million and invested $11.8 million in an operating joint venture. UDR is targeting apartment community acquisitions in markets where job growth expectations are above the national average, 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 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,

Table of Contents

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.

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

	2007	2006	2005	2004	2003
Homes acquired	**2,671**	2,763	2,561	8,060	5,220
Homes owned at December 31	**65,867**	70,339	74,875	78,855	76,244
Total real estate owned, at cost	**$ 5,952,541**	$ 5,820,122	$ 5,512,424	$ 5,243,296	$ 4,351,551

Dispositions

We regularly monitor and adjust our assets to increase the quality and performance of our portfolio. During 2007, we sold over 7,000 of our slower growing, non-core apartment homes while exiting some markets, specifically Colorado and Georgia, in an effort to increase the quality and performance of our portfolio. Proceeds from the disposition program were used primarily to reduce debt and fund acquisitions.

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.

At December 31, 2007, we had 86 communities with a total of 25,684 apartment homes, two communities with a total of 579 condominiums, and one commercial unit classified as real estate held for disposition. In January 2008, UDR announced that it had entered into a contract in the fourth quarter of 2007 to sell 25,684 apartment homes in 86 communities for $1.7 billion.

Expanding RE^3

RE^3 is our subsidiary that focuses on development, land entitlement and short-term hold investments. We expanded its development and redevelopment pipelines through a variety of activities. At December 31, 2007, UDR s total development pipeline totaled over 16,600 homes with a budget over $2.7 billion.

Our wholly owned, under development pipeline stands at 6,386 homes with a budgeted cost of $1.0 billion, of which 3,234 homes in five communities are under construction and the remaining 3,152 homes will be built on 12 land sites. An additional 1,594 homes budgeted at $244 million are completed developments or developments in progress in a pre-sale, contract-to-purchase program. Our completed redevelopment and redevelopment pipeline stands at 2,956 homes with a budgeted cost of $150 million, our future development pipeline of owned properties provides for construction of an additional 4,419 homes budgeted at $848 million, and the remaining 1,304 homes with a budgeted cost of $395 million comprise our interest in one consolidated development joint venture and three unconsolidated joint ventures.

Table of Contents

Development Activities

The following wholly owned projects were under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date
Riachi at One21 Phase I Plano, TX	202	202	$ 18,197	$ 18,000	$ 89,109	4Q07
Tiburon Phase I Houston, TX	320	184	19,244	22,000	68,750	2Q08
Addison Assemblage Dallas, TX	2,712		60,842	352,000	129,794	
	3,234	386	$ 98,283	$ 392,000	$ 121,212	

The first phase of the Addison Assemblage will deliver 684 homes in the third quarter of 2010.

In addition, we owned 12 parcels of land held for future development aggregating $124.5 million at December 31, 2007.

Redevelopment Activities

During 2007, we continued to reposition properties in targeted markets where we concluded there was an opportunity to add value and achieve greater than inflationary increases in rents over the long term. In 2007, we spent $194.4 million or $2,829 per home on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated $44.4 million or $646 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $78.2 million or $1,138 per home, and major renovations totaled $71.8 million or $1,045 per home for the year ended December 31, 2007.

Joint Venture Activities

The following consolidated joint venture project was under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date

Jefferson at Marina del Rey Marina del Rey, CA	298		$ 123,185	$ 138,000	$ 463,087	2Q08

The following unconsolidated joint venture projects were under development as of December 31, 2007:

	Number of Apartment Homes	**Completed Apartment Homes**	**Cost to Date (In thousands)**	**Budgeted Cost (In thousands)**	**Estimated Cost Per Home**	**Expected Completion Date**
Lincoln Towne Square Phase II Plano, TX	302		$ 13,476	$ 25,000	$ 82,781	3Q08
Ashwood Commons Bellevue, WA	274		47,171	97,000	354,015	4Q08
Bellevue Plaza Bellevue, WA	430		37,990	135,000	313,953	4Q10
	1,006		$ 98,637	$ 257,000	$ 255,467	

Table of Contents

UDR owns a 20% interest in a joint venture to which UDR sold nine operating properties, consisting of 3,690 homes, and contributed Lincoln Town Square II, as noted above. In addition, UDR owns a 49% interest in an operating joint venture which owns and operates a recently completed 23-story, 166 apartment home high rise community in Bellevue, WA.

Transforming Operations

During 2007, UDR has been committed to growing net operating income through automation and improving the ease of doing business with us. Since adopting our new Corporate Strategies, UDR selected and began to deploy YieldStar revenue management software, launched a newly redesigned, customer-oriented web site with better features, and improved the quality of our photos on the web. The new *www.udr.com* web site features side-by-side apartment and floor plan comparisons, enhanced mapping, additional pricing options, 360 degree virtual tours, a furniture arrangement feature, mobile web site access, and click-to-chat and click-to-call for online support. In the first month following the launch, UDR experienced the highest unique visitor traffic in its history.

UDR also launched a new Spanish-language site, marketing to Latinos, the nation s fastest-growing ethnic group. The site offers over 4,000 Spanish translated web pages and includes apartments for rent search resources. The website can be found at *http://es.udr.com* and can also be found on any web-enabled mobile device.

These enhancements have increased traffic and reduced administrative and marketing costs as we implemented internet initiatives and technology solutions to drive traffic from low cost or no cost sources. As a result, customer acquisition costs have been reduced significantly.

Sourcing Low-Cost Capital

During 2007, UDR established a $650 million joint venture with a large domestic institutional partner. The venture owns a portfolio of 3,690 stabilized homes located in nine multi-family communities in Austin, Dallas and Houston, Texas, and another 302 homes currently under development in Dallas, Texas. In addition to this $350 million initial pool of assets, the joint venture contains a $300 million expansion feature for future acquisitions. At closing, the venture secured a $232 million, seven year, interest only mortgage which is recourse only to the properties and bears interest at a rate of 5.61% per annum. The venture secured a commitment for a loan in the principal amount of $21.7 million to replace construction financing on an apartment community under development. The take-out loan provides for interest only, bears interest at 5.55% per annum and will have a term of 6 years. UDR realized proceeds of $326.2 million for the properties and we hold a 20% interest in the venture. In addition to the upfront proceeds, UDR has the opportunity for future proceeds after certain IRR hurdles are achieved.

Financing Activities

As part of our plan to strengthen our capital structure, we utilized proceeds from dispositions, 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 2007:

Repaid $186.8 million of secured debt and $167.3 million of unsecured debt.

Sold $150 million aggregate principal amount of 5.50% senior unsecured notes due April 2014 in March 2007 under our medium-term note program. The net proceeds of approximately $149 million were used for debt repayment.

Redeemed 5,416,009 shares of our 8.60% Series B Cumulative Redeemable Preferred Stock on May 29, 2007, the redemption date, for a cash redemption price of $25 per share plus accrued and unpaid dividends to the redemption date.

Sold $135 million, or 5,400,000 shares, of our 6.75% Series G Cumulative Redeemable Preferred Stock in May 2007. The shares have a liquidation preference of $25 per share and will be redeemable at par

Table of Contents

at the option of UDR on or after May 31, 2012. The net proceeds from the offering were used to fund the redemption of all of the outstanding shares of our 8.60% Series B Cumulative Redeemable Preferred Stock.

Amended and restated our existing three-year $500 million unsecured revolving credit facility with a maturity date of May 31, 2008, to increase the facility to $600 million and to extend its maturity to July 26, 2012. Under certain circumstances, we may increase the facility to $750 million.

Repurchased 3,114,500 shares of our common stock at an average price per share of $25.02 under our 10 million share repurchase program during the twelve months ended December 31, 2007.

Markets and Competitive Conditions

Upon completion of the portfolio sale announced in January 2008, we expect that approximately 90% of our net operating income will be generated from homes located in markets on the Pacific Coast, the Virginia-Washington, D.C. corridor and Florida. 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.

In many of our markets, competition for new residents is intense. 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, developer partnerships, investment companies and other apartment REITs. This competition could increase prices for properties of the type that we would likely pursue, and our competitors may have greater resources, 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, acquisition, marketing and financing expertise,

scalable operating and support systems,

purchasing power,

geographic diversification with a presence in 30 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 realignment 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.

Communities

At December 31, 2007, our apartment portfolio included 234 communities having a total of 65,867 completed apartment homes. The overall quality of our portfolio has significantly improved with the disposition of non-core apartment homes and our upgrade and rehabilitation program. The upgrading of the portfolio provides several key benefits related to portfolio profitability. It enables us to raise rents more significantly 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.

Same Community Comparison