Opening doors to the future®

To Our Fellow Shareholders:

In 2016, UDR (the "Company") performed well on all fronts. During 2016 we produced strong Adjusted Funds from Operations ("AFFO") and dividend growth through strong same-store ("SS") operating results and continued delivery of value-accretive development projects. Joining the S&P 500 Index in March was also an important event for the Company and created a broader group of investors.

From a macro perspective, the U.S. economy continued to perform well in 2016. Our best-in-class operating platform and diversified portfolio helped us to navigate a challenging operating environment resulting from elevated new multifamily supply and concessionary pricing. Our teams overcame these obstacles better than most of our peers and we continued to generate the long-term value creation that our shareholders have come to expect.

Full-year 2016 UDR highlights include:

General

- Increased AFFO per share by 8% year-over-year to $1.63 from $1.51 in the prior year;
- Increased our declared dividend per share by 6% year-over-year to $1.18 from $1.11 in the prior year;
- Successfully published the fourth iteration of our industry leading Strategic Outlook; and
- Joined the S&P 500 Index.

Shareholder Return

- Our 2016 total shareholder return ("TSR") was 0.27%, in the middle of the apartment peers. We are by no means satisfied with this short-term result, however we continue to focus on long-term value creation. As of March 15, 2017, we have generated a 14.1% annualized TSR for our shareholders since our initial Strategic Outlook was published in early 2013 versus 11.4% for the S&P 500 and 8.6% for the NAREIT Equity REIT Index. We remain confident that we have the right strategy and team in place to continue generating strong, long-term TSR throughout the real estate cycle. The attributes on the following pages help us to accomplish this.

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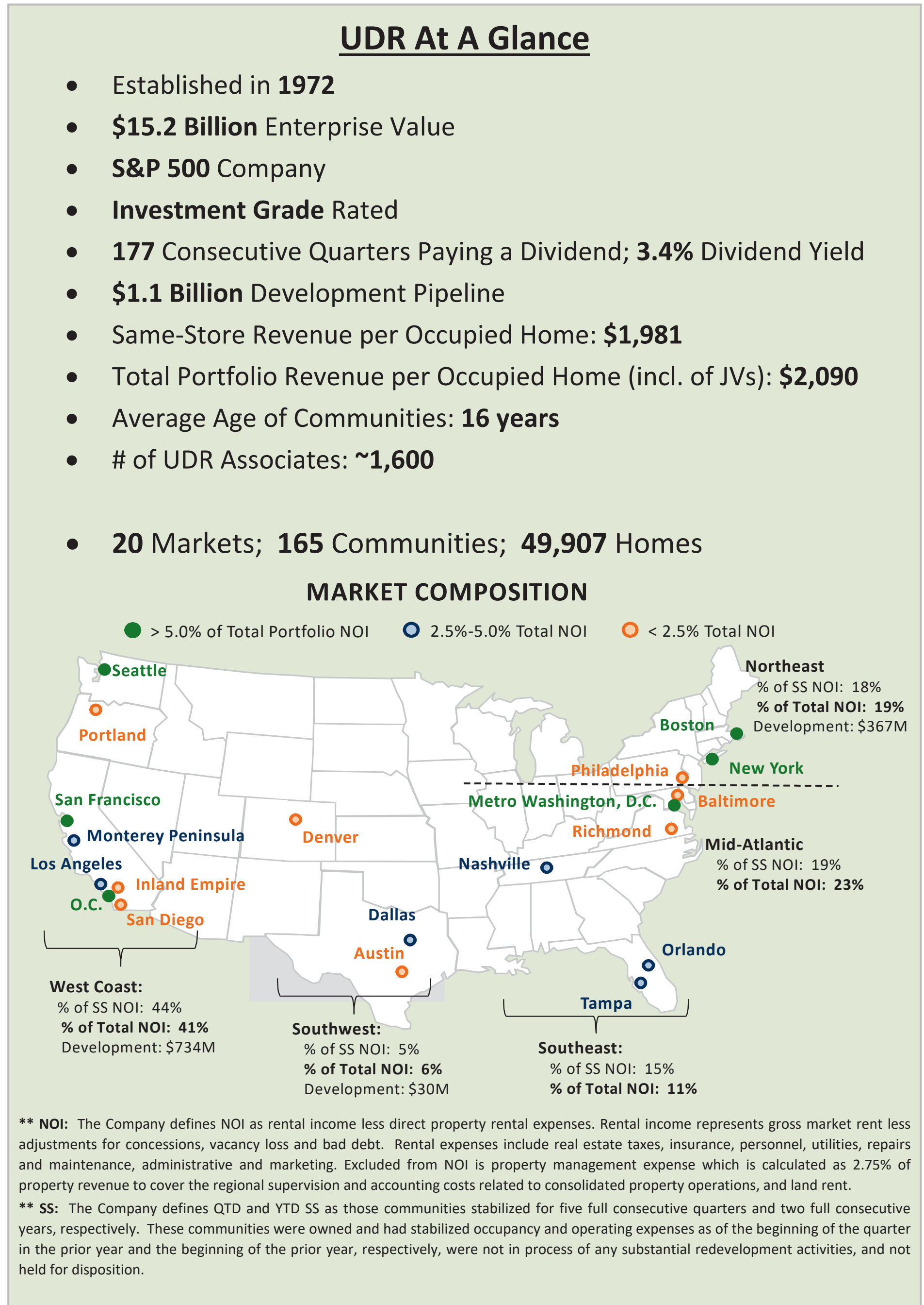
Operations

- Generated full-year same-store revenue and net operating income (“NOI”) growth of 5.7% and 6.5%, respectively, the second highest growth rates in the apartment space;
- Expanded our operating margin by 65 basis points (“bps”) year-over-year to 71.4%; and
- Implemented numerous revenue-generating and expense-reducing operating initiatives.



Transactions and Development

- Acquired one wholly-owned apartment community and two UDR/MetLife Joint Venture communities located in metro Seattle for a total consideration of $177 million;
- Sold eight wholly-owned apartment communities and one UDR/MetLife Joint Venture community all located in Baltimore and Dallas for a total consideration of $322 million. The net gain on the eight wholly-owned communities was $201 million;
- Completed $217 million of development projects at UDR’s pro-rata ownership interest which are expected to generate ~$106 million (~49% above cost) of net asset value (“NAV”); and
- Commenced construction on $459 million of new development projects at UDR’s pro-rata ownership interest which are forecast to create ~$230-$240 million (~50% above cost) of NAV.

Balance Sheet and Capital Markets

- Strengthened our credit metrics through organic NOI growth and development lease-ups coming on-line. Year-end debt-to-enterprise value was 23.9% and net debt-to-EBITDA was 5.1x;
- Issued $174 million of common stock in conjunction with our inclusion in the S&P 500 Index; and
- Issued $300 million of 10-year unsecured debt at 2.95%, representing a very strong execution.

Strategic Overview

In early February 2016, we published the fourth edition of our industry leading Strategic Outlook. The latest document reaffirmed our ongoing commitment to our core strategies. These are:

- **Operating Excellence:** Maximize revenue growth and consistently enhance our operating margins through innovative revenue-generating or expense-reducing initiatives.
- **Portfolio Diversification:** Maintain a diversified portfolio to reduce market-concentration risk which allows us to do well in all real estate cycles.
- **Accretive Capital Allocation:** Invest in accretive internal and external growth opportunities, when appropriate, that better position us to maximize long-term returns and improve our portfolio of communities.
- **Balance Sheet Strength:** Maintain a safe and liquid balance sheet that can fully fund our internal and external needs throughout the real estate cycle.

Successful execution of these strategies results in high-quality, predictable AFFO, NAV and dividend per share growth, which ultimately drives TSR throughout the real estate cycles. I encourage you to review the fifth iteration of our Strategic Outlook which was published in January 2017 and covers the 2017/2018 two-year period. It can be found in the Presentations section of our Investor Relations website, ir.udr.com.

We view the Strategic Outlook as a contract with our shareholders and as such we also want to measure our actual results.

A comparison of how we have performed against our previous four Strategic Outlooks is contained in our recently published 2017/2018 Strategic Outlook. In summary, we have exceeded prior same-store revenue, expense and NOI growth forecasts cumulatively by an average of 210 bps, 5 bps and 300 bps, respectively. Likewise, Funds from Operations as Adjusted (“FFO as Adjusted”) and AFFO per share have cumulatively outgrown prior Strategic Outlook forecasts by an average of 410 bps and 490 bps, respectively. As you will also see in the 2017/2018 Strategic Outlook, our developments have proven highly accretive over time and our balance sheet has only continued to strengthen, with our credit metrics significantly better-than-forecast when compared against our initial expectations.

Economic Environment

2016 was another solid year for the U.S. economy with job growth continuing at a steady pace, the unemployment rate further declining and wage growth beginning to accelerate.

In the apartment space, 2016 supply/demand fundamentals were more challenging than in preceding years, primarily as the result of elevated apartment deliveries and the aggressive lease-up concessions that came with them. This combination negatively impacted pricing dynamics in assorted major urban locales and coastal markets. When taken in total, 2016 was a more normalized year from a supply/demand perspective, with some markets improving, some worsening and many performing in-line with expectations.

Overall, we continue to believe that apartments have a solid runway for long-term future growth. Strong population demographics, a growing propensity to rent across all U.S. age cohorts, steady job growth, improving household formation and a lackluster single-family housing recovery continue to provide tailwinds to the industry. With new apartment deliveries expected to peak in the first half of 2017, we remain optimistic about future multifamily growth prospects and UDR's ability to capitalize on them.

Operational Excellence

Our core business is our operating platform which generates the vast majority of our AFFO, NAV and dividend growth led by our Chief Operating Officer, Jerry Davis, a 27-year UDR veteran who provides exceptional leadership to our 1,300 very dedicated team of associates. In 2016, this team overcame a more difficult-than-anticipated operating environment and generated strong same-store revenue, expense and NOI growth of 5.7%, 3.7% and 6.5%, respectively. These results handily outpaced the apartment peer average same-store, expense and NOI growth rates of 4.3%, 2.4% and 5.3%, respectively, as well as historical, long-term averages.

A portion of our operating success stems from our ability to proactively manage our portfolio when market dynamics fluctuate. We take pride in this attribute and it was tested in 2016, when we changed our operating strategy midway through the year. Whereas in 2015, we realized pricing power in nearly every market, and therefore could increase rental rates across our portfolio with ease; however, in 2016, new supply restricted typical second and third quarter seasonal rental rate acceleration in certain coastal markets. As a result, we moved away from maximizing rental rate growth mid-year and instead focused on increasing our occupancy. This shift in strategy proved successful, increasing our second-half 2016 portfolio occupancy by 20 bps versus the prior year period and the first-half of 2016.

Market revenue growth will always serve as a governor on how quickly we can grow over the long-term. Because of this, "something extra" is needed to surpass market growth. For UDR, that

"something extra" is consistently innovating throughout our operating platform through the implementation of revenue-enhancing and/or expense-reducing initiatives that expand our revenue base and margins. We have proven that we are skilled at innovating over the long-term and our 2016 same-store operating margin of 71.4%, an increase of 520 bps since 2010 which is an exceptional result for any business, is further proof of this.

Our operating platform has been, and will remain, our primary growth and value creator. We are pleased with our success over time, but are always aware of our need to further improve. My thanks and gratitude go out to all of our operating associates, as they are the primary contributors to our ongoing operating success.

Transactions

Opportunities for acquisition-related accretive growth in 2016 were not as plentiful as in previous years; however, we did deliver a variety of transactions that created value for our shareholders. For this, I am grateful to our Chief Investment Officer, Harry Alcock, his second-in-command for investments, Andrew Cantor, and the rest of our highly skilled investment team.

In the fourth quarter of 2016, we purchased three apartment communities, two of which were previously in our UDR/MetLife Joint Venture, through 1031 exchanges for a total consideration of $177 million. The communities are located in metro Seattle, a market we like long-term, were acquired at attractive returns and improved the quality of our portfolio.

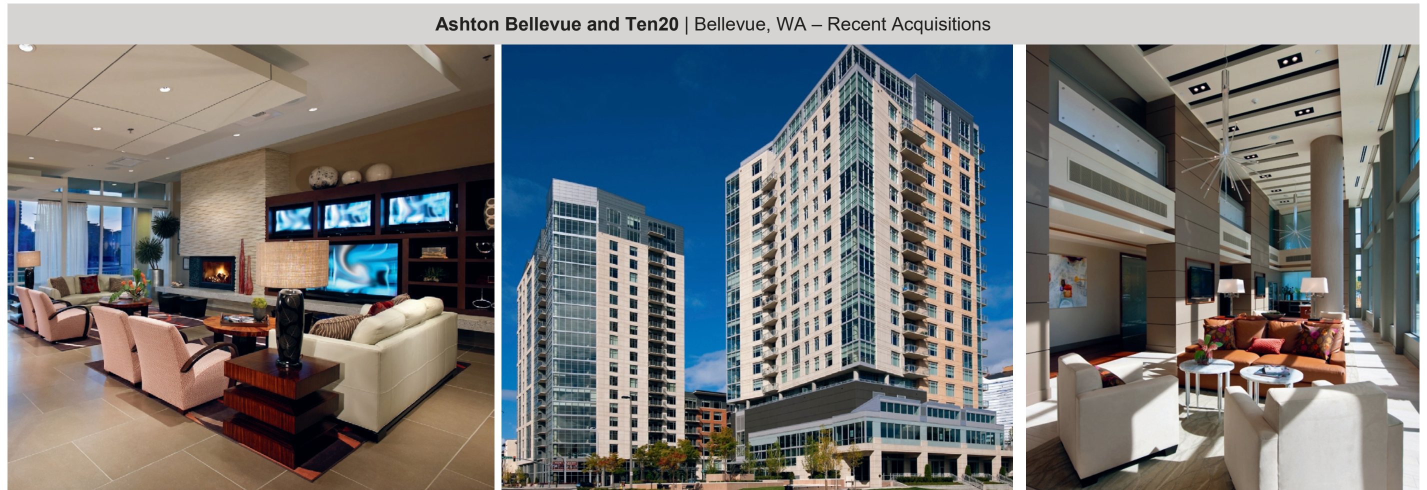
On the land front, we purchased our joint venture partner's ownership interests in two development sites for a total consideration of $28 million. Subsequent to the acquisition, we signed a 49-year triple-net operating ground lease with a third-party on one of the sites that will pay UDR approximately $2.6 million in annual lease revenue. This structure effectively monetized all of our potential future development value creation upfront.

The market value remained high for apartment communities in 2016 and we continued to take advantage of this dynamic to fund our accretive development pipeline. Late in the year, we sold nine communities, one of which was previously in the UDR/MetLife Joint Venture, for a total consideration of $322 million. The sale of the eight wholly-owned communities generated a net gain of $201 million, a weighted average IRR of 12.7% over the respective hold periods, and reduced our exposure to Baltimore, a slower growth market, and Dallas, a market that will be facing new supply pressures in the coming years.

During the year, we also sold our ownership interests in four land sites and one retail property for a total consideration of $71 million, resulting in a net gain of $9 million.

Market dynamics and capital flows will always govern the transactional opportunities that are available in any given year. We remain vigilant in our search for transactions that will improve our portfolio quality and be accretive to NAV and AFFO per share.

Ashton Bellevue and Ten20 | Bellevue, WA – Recent Acquisitions



Development

Development is a core competency at UDR and represents an investment that we will continue to pursue throughout the real estate cycle. Over the past five years, we have built a very capable development platform, completing $1.3 billion of new apartment projects and creating ~$585 million of NAV for our shareholders. I extend my thanks to CIO, Harry Alcock, his second-in-command for development, Bob McCullough, and the rest of our highly skilled development team for their hard work.

As the real estate cycle has lengthened, there are not as many potential development opportunities available as there were a couple of years ago. However, we are still finding a number of accretive opportunities that reach our targeted 150-200 bps stabilized value creation spread (i.e., stabilized construction yield minus current market cap rate) and produce 35%-40% NAV accretion (i.e., for every $1 spent our shareholders get $1.35-$1.40 in value). In a choppier macro environment, like what we see today, we are cognizant of the need to remain disciplined in our capital allocation and will not pursue an opportunity when the underlying economics do not warrant it. While no REIT gets development timing correct all of the time, we take numerous actions to mitigate risk throughout the development process. Our risk mitigation approach toward new projects increases the probability that we will create value for our shareholders more consistently over long-term real estate cycles.

Risk mitigation starts with limiting the size of our overall development activities to a level that can be fully funded through a combination of AFFO in excess of dividends and minimal annual asset sales. The target size of our development pipeline is designed to be in a range that is appropriate for both our

balance sheet and the team in place. The sweet spot for UDR is approximately 6%-9% of enterprise value. As of December 31, 2016, our development pipeline totaled $1.1 billion at our pro-rata ownership interest (7% of enterprise value), of which $685 million or 61% has already been funded. We also conservatively underwrite each project we undertake, using current rents and modest growth estimates and if a project does not hit our targets, we will not move forward. Third, we generally only seek entitled land to minimize the time lag and risk from land acquisition to initial construction. Additionally, we will not start construction until all engineering and design drawings are largely complete and the majority of costs are fixed.

We believe this is a winning formula for generating strong risk-adjusted growth through development and one that will continue to serve us well as the real estate cycle lengthens.

We have removed our dependency on the capital markets through our self-funding approach. We size our development pipeline such that we can fully fund our annual development spend through our free cash flow (AFFO less dividend) and non-core asset sales.

In 2016, we completed two development joint venture communities costing $217 million at our pro-rata ownership interest. The first of these projects is our 447-home, 41-story, $319 million (UDR owns 51%) 399 Fremont high-rise located in San Francisco's Rincon Hill submarket. This community is one of the most luxurious for-rent communities in the Bay Area and is just steps away from the financial district and the under-construction Transbay Transit Center. The second project is our 190-home, 17-story, $108 million (UDR owns 50%) 3033 Wilshire high-rise located in Los Angeles' Koreatown submarket. The community is well-amenitized, located near a metro station and provides residents with unobstructed views of downtown Los Angeles and the Hollywood Hills. Both of these communities were completed on-time and on-budget and have leased up at velocities with rental rates in excess of our original underwriting expectations. We believe that these two projects created ~$106 million (~49% above cost) of NAV for our shareholders.

During 2016, we commenced three development projects, one in each of Boston, Los Angeles and Dallas for a total expected cost of $459 million, at our pro-rata ownership interest. The first of these projects is our $367 million (UDR owns 100%), 585-home, 345 Harrison Street community located in the South End submarket of Boston. South End is rapidly transforming and hosts some of the best restaurants in Boston. 345 Harrison will provide a differentiated, high-end living experience to this emerging area. Next is our $126 million (UDR owns 50%), 150-home, Crescent Heights high-rise located in the Beverly Hills/Miracle Mile submarket of Los Angeles. The community's amenities will be second-to-none in the City and include many luxury services. Last, we started our $59 million (UDR owns 50%), 383-home, Vitruvian West community located in the Addison suburb of Dallas. Vitruvian West is the latest addition to our Vitruvian masterplan in Addison and will offer a differentiated price point versus the project's earlier development phases which totaled 1,135 homes. We believe these three projects will create ~$230-$240 million (~50% above cost) of NAV for our shareholders.

Development remains a highly accretive use of capital. We believe our development capability is, and will continue to be, a differentiating factor among peers as we continue to create value for our shareholders.

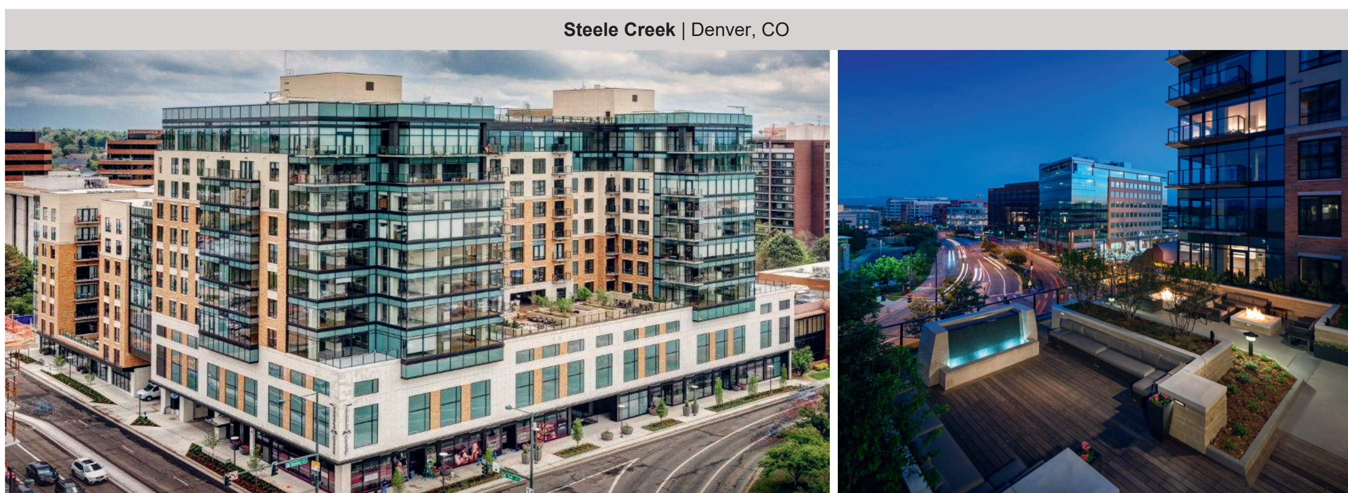
Structured Transactions

Over the past two years, an increasing number of strong risk-adjusted growth opportunities have presented themselves in the form of participating loans and/or preferred equity investments, in apartment communities in markets that we expect to increase our exposure to over time. Below is a short synopsis of how each structure functions and how we have capitalized on these opportunities.

Participating Loan: UDR provides a certain percentage of construction financing to a developer of a well-located project that we would potentially be interested in owning. We are the senior lender, are paid interest on the outstanding loan balance and may act as the property manager and participate in a percentage of the value over actual construction cost whether we eventually purchase the project or it is sold to a third-party.

To date, we have successfully used the participating loan structure once with our $94 million investment in Steele Creek, a well-located, luxury high-rise in the Cherry Creek submarket of Denver.

Steele Creek | Denver, CO



Preferred Equity Developments: There are currently two primary preferred equity options.

First, UDR makes an equity investment in a development project that is typically underway or close to commencing construction. We assume no construction cost risk, are paid a preferred return on our investment throughout the construction phase and secure a fixed price purchase option contract on the project.

Second, UDR provides preferred equity financing to a developer and is paid a preferred return on its investment.

In May 2015, we invested with a well-known developer in a $559 million (total going-in valuation) West Coast Development Joint Venture. This served as our initial preferred equity investment and included five development projects totaling 1,533 apartment homes located in Seattle and California.

CityLine | Seattle, WA

8th + Republican | Seattle, WA

We like these types of innovative investments as they complete our real estate investment portfolio between stabilized acquisitions and long-cycle development, they generate a competitive current return and they provide us with a discounted price relative to market if we choose to acquire the project. Moving forward, we expect that the continued tightening and repricing of bank construction lending will translate into more accretive opportunities for UDR.

Balance Sheet

We continued to strengthen our credit metrics in 2016. At year end, our debt-to-enterprise value and net debt-to-EBITDA were 23.9% and 5.1x, respectively, which represented year-over-year improvements of 170 bps and 0.6x, respectively. Gradual operating growth, development earn-in and a $174 million equity offering in March 2016 that occurred in conjunction with our S&P 500 inclusion, were the primary drivers of the improvement.

In August 2016, we enhanced our forward debt maturity schedule by issuing $300 million of 10-year unsecured debt at 2.95%; which was very strong pricing and prescient timing given the rise in interest rates following the November presidential election. As of December 31, 2016 we had $3.4 billion of debt outstanding at a 3.79% average interest rate and with average years to maturity of 5.3.

Our unsecured ratings (S&P: BBB+; Moody's: Baa1) are strongly investment grade and place us in a position to garner efficient pricing should we choose to issue debt in the future. We feel good about where our leverage metrics are currently and continue to believe that a safe, flexible and liquid balance sheet is essential to generating predictable earnings and dividend growth over time.

Senior Executive Changes

Joe Fisher joined UDR in early 2017 as Chief Financial Officer. Mr. Fisher brings an extensive background in public and private real estate to UDR. Prior to joining us, he was a member of the Deutsche Asset Management real estate securities team since 2007, and served as Co-Head of the Americas and Co-Lead Portfolio Manager. We are excited to have Joe on the team and believe that his talents will continue to progress UDR forward in the years ahead.

Tom Herzog, UDR's Chief Financial Officer prior to Joe's arrival, was recently named Chief Executive Officer at HCP, Inc., a large healthcare REIT that is listed on the New York Stock Exchange. We all appreciate the contributions Tom made to UDR during his time as CFO and wish him the best in all of his future endeavors.

Board of Directors

We have a highly skilled Board of Directors comprised of 10 members, nine of which are independent, with a wide range of expertise that help to guide our management team and the strategic direction of UDR. We are grateful for their wisdom and counsel.

GICS® Changes

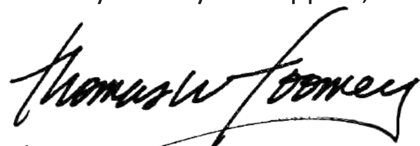
2016 was a revolutionary year for public real estate companies as the real estate sector was given its own Global Industry Classification Standard ("GICS®"). GICS® is the industry classification methodology used by S&P for their proprietary stock market indices and serves as one of the primary classification systems for equities for investors around the world. The reclassification of real estate stocks from the Financials GICS® sector to its own sector represented the first change to S&P's classification system since it was created in 1999. This change is a positive development for real estate stocks, and equity REITs in particular, as generalist investors continue to re-weigh their portfolios toward real estate stocks in order to not meaningfully deviate from benchmark indices.

Looking Ahead

As we look ahead to 2017, our outlook appears very similar to 2016. We continue to believe that apartments are a great business and have many years of solid growth ahead. Overall, demographics and supply/demand fundamentals remain very strong in many of our markets. We feel very good about where UDR is positioned in the current environment and expect that our best-in-class operating platform and diversified portfolio will continue to provide us with the firepower to outperform our apartment peer group.

In closing, UDR has the right strategy and team in place to continue creating long-term value for our shareholders. Four of our five senior executives have worked together in one capacity or another for the past 16 years and our corporate and site associates are, in my opinion, the best in the industry. In closing, I would like to thank all of my associates and Board Members for their hard work in making 2016 another great year for UDR. I look forward to what 2017 will bring.

Thank you for your support,



Thomas W. Toomey
President and Chief Executive Officer