Fresh Market, Inc.
Form 10-K
March 23, 2015

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 25, 2015
OR
¨ 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: 1-34940

THE FRESH MARKET, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	56-1311233 (I.R.S. Employer Identification No.)
628 Green Valley Road Greensboro, NC (Address of principal executive offices)	27408 (Zip Code)

(336) 272-1338
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
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 ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. x

---

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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Aggregate market value of the registrant's common stock held by non-affiliates as of July 27, 2014, based upon the closing sales price of the common stock on such date reported on the NASDAQ Global Select Market, was approximately $1,442,000,000.

The number of shares of the registrant’s common stock, $0.01 par value, outstanding as of March 11, 2015 was 48,520,758 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2015 Annual Meeting of Stockholders to be held June 2, 2015 are incorporated by reference in Part III of this Form 10-K to the extent described herein.

Cautionary Note Regarding Forward-Looking Statements

This Form 10-K and our 2014 Annual Report to Stockholders contain forward-looking statements in addition to historical information. We use words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “look forward,” “may,” “plan,” “potential,” “project,” “should,” “target,” “will” and “would” or any variations of these words or other with similar meanings to identify such forward-looking statements. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These “forward looking statements” may relate to such matters as our industry, business strategy, goals and expectations concerning our market position, future operations, future performance or results, margins, profitability, capital expenditures, liquidity and capital resources, interest rates and other financial and operating information and the outcome of contingencies such as legal and administrative proceedings.

Our forward-looking statements contained in this Form 10-K are based on management’s current expectations and are subject to uncertainty and changes in circumstances. We cannot guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The following are some of the factors that could cause actual future results to differ materially from those expressed in any forward-looking statements: accounting entries and adjustments at the close of a fiscal quarter; unexpected expenses and risks associated with our business; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection, customer service and convenience; the effective management of our merchandise buying and inventory levels; the quality and safety of food products and other items that we may sell; our ability to anticipate and/or react to changes in customer demand; changes in economic and financial conditions, including U.S. fiscal and monetary policy, and the resulting impact on consumer confidence; other changes in consumer confidence and spending; unexpected consumer responses to promotional programs; unusual, unpredictable and/or severe weather conditions, including their effect on our supply chain and our store operations; the effectiveness of our logistics and supply chain model, including the ability of our third-party logistics providers to meet our product demands and restocking needs on a cost competitive basis; the execution and management of our store growth, including the availability and cost of acceptable real estate locations for new store openings, the capital that we utilize in connection with new store development and the anticipated time between lease execution and store opening; the mix of our new store openings as between build to suit sites and second-generation, as-is sites and as between existing markets and newer markets; the actions of third parties involved in our store growth activities, including property owners, landlords, property managers, contractors, subcontractors, government agencies, and current tenants who occupy one or more of our proposed new store locations, all of whom may be impacted by their financial condition, their lenders, their activities outside of those focused on our new store growth and other tenants, customers and business partners of theirs; impairment of recorded goodwill and other long-lived assets; global economies and credit and financial markets; our ability to maintain the security of electronic and other confidential and/or personal information; serious disruptions and catastrophic events; competition; personnel recruitment and retention, including the outcome and costs of the current CEO search being conducted as part of our previously announced leadership change; acquisitions and divestitures, including the ability to integrate successfully any such acquisitions; information systems and technology; commodity, energy, fuel and other cost increases; compliance with laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; tax matters; numerous other matters of national, regional and global scale, including those of a political, economic, business, and competitive nature; and other factors, many of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements. You should bear this in mind as you consider forward-looking statements.

Any forward-looking statement made by us in this Form 10-K speaks only as of the date hereof. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of

new information, future developments or otherwise, except as may be required by any applicable securities laws. You are advised, however, to consult any further disclosures we may make in our future reports to the Securities and Exchange Commission, on our website, or otherwise.

The Fresh Market, Inc.

Annual Report on Form 10-K
For Fiscal Year Ended January 25, 2015
Table of Contents

	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	23
Item 3.	Legal Proceedings	23
Item 4.	Mine Safety Disclosures	24
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	48
Item 8.	Financial Statements and Supplementary Data	48
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	48
Item 9A.	Controls and Procedures	49
Item 9B.	Other Information	50
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	51
Item 11.	Executive Compensation	51
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13.	Certain Relationships and Related Transactions, and Director Independence	51
Item 14.	Principal Accountant Fees and Services	51
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	52
	SIGNATURES	55

PART I

Item 1. Business.

General

The Fresh Market is a growing specialty grocery retailer focused on creating an extraordinary food shopping experience for our customers. Since opening our first store in 1982, we have offered high-quality food products, with an emphasis on fresh, premium perishables and an uncompromising commitment to customer service. We seek to provide an attractive, convenient shopping environment while offering our customers a compelling price-value combination. As of January 25, 2015, we operated 169 stores in 27 states across the United States.

History

The Fresh Market opened its first store in Greensboro, North Carolina in 1982. In the 1980s and early 1990s, the Company expanded its presence throughout the southeastern United States. In 1996, the Company entered Florida, where as of January 25, 2015 we have 40 stores, making Florida our largest market. We continue to introduce our store to new markets and entered the Midwest in 2005, the Northeast in 2009, the Plains states in 2012, and Texas in 2013.

Throughout The Fresh Market's history, we have been characterized by a culture of continuous growth and an innovative approach to perishable product offerings. As the Company has grown, we have implemented numerous organizational, technological and process improvements to better standardize our systems and processes and contribute to our ability to scale our operations. At the same time, we have fostered a spirit of innovation that encourages our management to continually challenge and enhance our product offerings and services.

Competitive Strengths

We attribute our success in large part to the following competitive strengths:

Outstanding food quality, store environment and customer service. We are dedicated to delivering a superior shopping experience that exceeds our customers' expectations by offering fresh, premium products and providing a high level of customer service. Our high-quality food offerings are the result of our careful selection of distinct products based on a range of attributes such as taste, color, size, grade, marbling, growing conditions, origins and freshness. Additionally, our stores are designed to delight our customers' senses with an aesthetically pleasing environment. Elements of this environment include colorful product presentations, accent lighting, music and various aromas including flowers, coffee and freshly baked goods. Additionally, we strive to engender employee pride and enthusiasm, reflecting our belief that a motivated, knowledgeable staff and a service-oriented, engaging shopping experience foster a strong relationship with our customers, generate favorable word-of-mouth publicity and drive sales.

Business well positioned for changing industry trends. We believe that The Fresh Market is well positioned to capitalize on evolving consumer preferences and other trends currently shaping the food retail industry. These trends include:

- a growing emphasis on customer convenience and the shopping experience;
- an expanding number of eating and snacking occasions among consumers beyond the traditional breakfast, lunch, and dinner;
- an increasing consumer focus on healthy, fresh and quality offerings as well as food attributes such as organic, non-GMO, and gluten-free offerings;

- an increasing consumer interest in locally-grown products including regionally and locally sourced food;
- an improving perception of private-label product quality; and
- an increase in the average age of the U.S. population, driven by an aging Baby Boomer population which, we believe, tends to make a greater number of shopping trips and higher food at home spending per household than younger age groups.

We believe that our differentiated food shopping experience, product offerings and smaller-box format complement these industry dynamics and will enable us to continue growing successfully and profitably.

Highly-profitable smaller-box format. Since our founding, we have exclusively operated a smaller-box format, which has proven to be highly profitable. Our stores average approximately 21,000 square feet and carry an edited assortment of approximately 10,000 to 11,000 SKUs at any one time, while many conventional supermarkets are approximately 40,000 to 60,000 square feet and carry an average of 45,000 SKUs. Within this smaller-box format, we focus on higher-margin food categories. Further, we believe our format facilitates interaction among our store managers, customers and staff, enhancing the customers' shopping experience. Our disciplined focus on this format leads to more consistent execution across our store base, which we believe allows us to generate higher operating margins than conventional supermarkets. Additionally, the smaller-box format is adaptable to different retail sites and configurations. We expect this format will enable us to continue to extend our geographic presence without compromising our profitability or shopping experience.

Scalable operations and replicable store model. We believe that our infrastructure, including our management systems and distribution network, enables us to replicate our profitable store format and differentiated shopping experience. We expect this infrastructure to be capable of supporting significant expansion. We believe our standardized systems and processes, which rely on refined tools for procurement, inventory management, store operations and employee hiring, training and scheduling, are scalable to meet our expansion goals. We currently outsource substantially all of our logistics functions to third-party distributors and vendors whom we expect to have sufficient capacity to accommodate our anticipated growth. Additionally, each of our stores utilizes standard product display fixtures with flexible arrangement and design options that enable us to successfully replicate our customers' shopping experience in stores of various sizes and dimensions. Our store management mobility tracking system allows us to efficiently deploy staff across our stores and place experienced managers in each of our new stores, helping provide a consistent shopping experience at each of our stores.

Experienced management team with proven track record. Our executive management team has extensive experience across a broad range of industries and employs an analytical, data-driven approach to decision-making that is designed to encourage innovation and stimulate continuous improvement throughout the organization. Our executive management team has an average of fourteen years of experience in the retail industry and an average of six years with the Company, and is complemented by merchandising and operations management with an average of over thirty years of food retail experience and an average of fifteen years with the Company.

While we have set forth our competitive strengths above, food retail is a large and competitive industry and our business involves numerous risks and uncertainties. These risks include the possibility that our competitors may be more successful than us in attracting customers. Some of these competitors have been in business longer or may have greater financial resources than us, which may give them a competitive advantage in sourcing, promoting and selling products. In addition, achieving our store growth and margin improvement objectives will be subject to a number of important challenges. For a more complete description of these challenges and the other risks associated with an investment in our common stock, see "Item 1A. Risk Factors."

Growth Strategy

Expand our store base. We intend to continue to expand our store base in existing markets and to penetrate new markets over time. We view expansion as a core competency and have nearly quadrupled our store count over the last ten years. Our real estate development team and supporting functions continuously look to improve our capability to identify new sites and forecast the sales performance of those sites. We employ a detailed, analytical process to identify target markets or sales potential by geographic regions. We target locations based on demographic characteristics including income and education levels, drive times, competition and population density, as well as other key characteristics including convenience for customers, visibility, access, signage and parking availability. We

generally visit a potential location multiple times to perform on-site diligence and interview potential customers. We supplement our in-house efforts by leveraging the expertise of our extensive regional broker network. Our real estate committee, which includes members of senior management, approves all new stores.

We have identified enhancements to our real estate process, which we believe will allow the Company to achieve more predictable future results and are now focused on three key refinements.

First, our real estate plan will place a greater emphasis on existing market expansion. We believe this approach will allow us to better control occupancy costs, leverage existing market data to improve sales forecasts, improve productivity among our future classes of stores and capitalize on brand awareness and reputation among consumers. In 2014, we opened 22 new stores, of which seven are in Florida, four are in North Carolina, and three are in Texas.

Second, we have modified our real estate selection process and sales forecasting to include new analytics, which we believe will improve the strength of stores added to our pipeline and enhance the consistency of results from new store openings. In addition to qualitative market research, we have updated both our existing forecast methodology and added a new dynamic forecasting model to augment this process. This model has shown a higher level of consistency in predicting sales performance and profit contribution than our previous process. The benefits of this revised process are being used for leases being signed now for stores opening in 2015 and beyond.

Third, during the most recent year, we obtained an updated white space analysis, which provided specific information about opportunities to grow and open more stores in the southeastern United States than previously planned, as well as tools to improve our capabilities in assessing sites in all our markets. We also believe our ability to source products at lower costs and better manage inventories has lowered the required break-even sales levels in recent years. Based on the foregoing, we determined that there is an opportunity to double our current stores based in the southeastern United States. This gives us confidence in our ability to select additional new sites in established and adjacent markets that we believe will provide returns in-line with our historical average.

Taken together, we believe these refinements to our real estate expansion plan will enable us to grow profitably and more predictably.

Our recent growth is summarized below:

	Year Ended January 25, 2015	January 26, 2014	January 27, 2013
Stores at beginning of fiscal year	151	129	113
Stores opened	22	22	16
Store closures	(4)	—	—
Stores at end of fiscal year	169	151	129
Relocations and remodels	—	3	1
Total gross square footage	3,580,000	3,200,000	2,714,000
Year-over-year change	12%	18%	14%

When developing a new store site, we generally target a store size of approximately 17,000 to 24,000 gross square feet and first year sales of approximately $7 million to $12 million. The sales levels often vary due to size of market, brand awareness, and local competition. Our target net investment to open a new store varies based on the approach we take to developing the applicable new store site and the tenant improvement allowances paid by the developer. For example, we may enter into a “build-to-suit” lease, in which the owner develops a store site to our specifications prior to us occupying the premises. For build-to-suit stores, depending on site characteristics and other factors, our target net investment is approximately $3 million to $4 million per store, including interior upfit and furniture, fixture, and equipment costs and initial inventory, net of payables. Alternatively, we may enter into a lease “as-is” for existing structures, in which we take the premises in its current state and self-develop it. For opening stores in “as-is” existing structures, depending on the age of the building, our target net investment is approximately $3.5 million to $5 million per store, although some transaction structures or specific properties may be substantially higher. Occasionally, we enter into a lease for, or acquire, land and then build the entire structure. In this case, depending on the site work and scope of the project, the net investment excluding cost of land is typically $5.5 million to $8.5 million per store, although some transaction structures or specific properties may be substantially higher, depending upon total developable square footage and complexity of the project. Also, we may incur lease inducement costs or similar prepayments in connection with acquiring or entering into new leases. These lease inducement costs and similar prepayments are not included as part of our net investment costs and are amortized to rent expense over the primary lease term.

In most cases, our operating model generally targets a cash flow contribution of 8% to 10% or greater of sales in the first year of operations, increasing to the low-to mid-teens by the fifth year of operation. In addition, our investment criteria and internal rate of return thresholds remain consistent across store site types. In most cases, we target a payback period of less than four years. When entering new markets, we may consider the new store site to be an investment with a lower return and choose to develop it in order to test our operating model, build credibility with the real estate community and provide a platform for future growth. We believe this approach allows us to better learn whether any refinements to our concept are required and obtain future real estate sites at lower costs before expanding further in the market.

Drive comparable store sales. We aim to increase our comparable store sales by generating growth in the number and average size of customer transactions at our existing stores. The key elements of our strategy to increase the number of customer transactions at our existing stores include:

- focusing on customer service with employees who are motivated, knowledgeable about our products and service-oriented to build customer loyalty;

- offering an engaging and differentiated food shopping experience that leads to favorable word-of-mouth publicity;

- providing a greater number of solutions for more meal occasions;

- introducing an assortment of distinctive, high-quality product offerings and communicating their attributes and suggestions for cooking with them to generate new and repeat visits to our stores;

- generating customer loyalty through expansion of products offered under our private-label brands;

- engaging in targeted marketing activities, such as focused media buys in prioritized markets, personalized marketing, social media activity, and community engagement; and

- refreshing or remodeling older stores to enhance the look and feel of the store.

The key elements of our strategy to increase the amount our customers spend when they visit our stores include:

- introducing new and creative products, including products offered under our private label brands, to accommodate our customers' evolving preferences;

- expanding our selection of local and regional products;

- utilizing in-store cross-merchandising and extending categories to provide ready to serve offerings;
- communicating and offering various promotional activities;

- enhancing our product offering displays to make purchasing more convenient; and

- refreshing or remodeling older stores to enhance the merchandising of products.

We believe that our commitment to providing differentiated and creative product offerings in response to customer needs and preferences and our focus on customer service will continue to build customer loyalty and favorable word-of-mouth publicity and lead to increased customer transactions at our stores and growth in the amount our customers spend when they visit our stores.

Increase our operating margins. We intend to increase our operating margins gradually over the long term through scale efficiencies and leverage of our fixed cost base. We believe we will be able to increase our gross margin, but may choose to invest these improvements to increase sales and market share where we operate our stores. Specifically, we believe our anticipated store growth will permit us to benefit from economies of scale in sourcing products and allow us to leverage our buying costs, supply chain costs, and occupancy costs as a percentage of sales. In addition to our continued expansion, as we refine and improve our various ordering, tracking and product allocation systems, we expect to benefit from additional gross margin improvement opportunities by increasing sales and reducing inventory shrinkage. We also believe that we can make profitable enhancements to our merchandise offerings by, for example, continuing to increase our selection of local and regional products. Finally, we believe that as we grow revenues and the store base, we will be able to leverage our existing infrastructure, corporate overhead, and labor expenses with

continued cost discipline to gradually improve operating margins or to provide funding to improve our customer service and marketing capabilities.

Industry Overview and Trends

The U.S. food retail industry encompasses store formats ranging from small grocery shops and convenience stores to large supermarkets and club stores. The supermarket format represents the largest segment of the food retail industry. This format, of which we are a part, includes conventional, warehouse, supercenter, limited assortment, military commissaries and natural/gourmet foods. We do not believe, however, that we neatly fit into any of these categories. With an average store size of approximately 21,000 square feet, a focus on perishables and only 10,000 to 11,000 SKUs in stock at any one time, we believe we are best defined as a specialty food retailer.

Key trends that we believe shape our market include:

- Increasing focus on convenience and the customer shopping experience: Supermarkets are enhancing or attempting to enhance the consumer’s shopping experience in stores with a more aesthetically appealing environment as competition is increasing. In addition, supermarkets are striving to be more innovative and responsive to consumer preferences with their consumer interactions and product offerings that include prepared foods and targeted promotions.

- Emphasis on healthy, fresh and quality offerings: Supermarkets are increasingly providing and marketing fresh food items consistent with ongoing health trends and greater consumer awareness of the negative aspects of processed foods. Many conventional supermarkets are attempting to complement center aisle grocery formats with fresh formats that emphasize high-quality perishables and prepared foods. The increased popularity of organic and natural products over the past few years and more recent interest in attributes such as non-GMO and gluten-free products are indicative of a consumer preference for fresh, healthy food items. Additionally, the growing consumer demand for fresh, quality offerings has improved the infrastructure for, and increased the supply of, these items, resulting in improved sourcing, distribution and pricing.

- Localization: An increasing number of consumers believe that locally-grown products are fresher and taste better. Consumers often purchase locally-grown food because they prefer to support local growers. In addition, these consumers may believe that locally-grown food results in a reduced environmental impact.

- Private label: Supermarkets continue to develop and promote private-label brands to distinguish themselves from their competitors and promote customer loyalty. These private-label brands can also offer benefits to retailers through increased margins and, in certain instances, to customers through lower prices compared to branded products. Another key contributor to private label growth has been the improved product quality image and exclusivity of certain brands, which can further help to differentiate supermarkets from each other.

- Aging customer demographic: According to the U.S. Census Bureau, by 2030, nearly one in five U.S. residents will be 65 or older, driven by an aging Baby Boomer population which, we believe, tends to make a greater number of shopping trips and higher food at home spending per household than younger age groups.

Products and Stores

We offer fresh, carefully-selected, high-quality food products focused on perishable categories in a store format that has been successful in diverse geographic and demographic markets.

Products

We have a significant focus on perishable product categories, which include meat, seafood, produce, deli, bakery, floral, sushi and prepared foods. Our non-perishable product categories consist of traditional grocery, frozen and dairy products as well as bulk, coffee and candy, beer and wine, and health and beauty. We emphasize fresh items that are distinct and of premium quality as compared to our conventional competitors. The following is a breakdown of our perishable and non-perishable sales mix:

	Year Ended January 25, 2015		January 26, 2014		January 27, 2013	
Perishable	65.5	%	65.4	%	65.8	%
Non-perishable	34.5	%	34.6	%	34.2	%

5

Our in-house merchants actively seek high-quality products from a wide range of sources. Our product selection includes:

- Meat. Our meat department offers our customers a unique Old World butcher shop experience set apart by its flexibility, quality and service. Our professional meat cutters are available during all hours of operation to answer customers' questions, offer cooking tips and provide custom cuts of meat. Our offerings include steaks that are expertly trimmed and aged for 14 to 21 days to provide restaurant-quality taste and tenderness, fresh turkeys year-round and ground beef that is ground daily in-store from steak trimmings and whole roasts. We also offer our customers Antibiotic-Free poultry products. All of our chicken and turkey are Antibiotic-Free and are fed a vegetarian-only diet with no animal by-products, which results in exceptionally moist, flavorful and tender meat.

- Seafood. We offer our customers a distinctive selection of fresh seafood and choose our suppliers based on the quality of their offerings and production methods. Our stores receive deliveries of fresh seafood up to six times a week, demonstrating our dedication to freshness. One of the distinguishing characteristics of the department is the prepared or "value-added" seafood selections. Additionally, we have partnered with the New England Aquarium to develop an Environmentally Sustainable Seafood Policy that shapes product sourcing decisions and inspires us to continuously improve the environmental responsibility of the items we sell in our seafood department. This commitment recognizes the increasing importance of sustainability in being able to provide our customers with the highest quality seafood they expect from us for many years to come.

- Produce. We offer our customers a "farmers' market" experience focused on freshness, variety and abundant displays. We also pride ourselves on offering our customers the "best eating" varieties year-round, and offer a mix of conventional, certified organic and local produce throughout the year depending on quality and availability. An example of our "best eating" varieties is our SweeTango apple that may not be available in conventional supermarkets. Our commitment to local and regional products is brought to life throughout our produce department, where we recognize that some of the best products in the world are right in the backyards of our stores. Through our Local 100 program we define local products as those produced within 100 miles of our store. The Regional 300 program brings products sourced within 300 miles of a store.

- Grocery and Dairy. We carefully select our grocery and dairy products to provide hard-to-find and premium-quality offerings to our customers, such as truffle oil and Devonshire cream. We have a growing line of our distinctive private-label dairy and non-perishable grocery products that address the wants and needs of our food-savvy shoppers and we employ these products as a vehicle for building and supporting our brand. These include our private-label omega-3 eggs and our private-label dairy products, which comprise a significant share of the dairy products we sell.

- Prepared Foods. We have a growing prepared foods department with a broad selection of quality products. Our prepared foods operations are focused on simplicity of execution, often relying on standardized recipes and instructions provided to the stores to maintain consistency in quality and food safety across the stores while maintaining a homemade, fresh look and great taste. Our prepared foods include entrees such as turkey meatloaf and manicotti, rotisserie selections such as whole chickens and baby back ribs and freshly made sandwiches and sides.

- Deli. Our European-style delicatessen features a broad assortment of high-quality deli meats and typically offers more than 200 varieties of imported and domestic cheeses. Our cheese selection includes Parmesan Reggiano, fresh mozzarella, manchego, gruyere and imported brie. Our deli meats are sliced to customer specifications and most cheese is cut, wrapped and weighed in-store.

- Bakery. We utilize a combination of in-store and third-party bakeries to produce our baked goods. The presence of daily in-store baking enhances the customer's shopping experience and reinforces the freshness and value provided in each store. The open layout of our bakery contributes to our aesthetically-pleasing store environment by, for example, allowing our customers to see and smell warm cookies as they come out of the oven.

6

- Bulk, Coffee and Candy. A number of products are offered in bulk format including nuts, dried fruits, snack mixes, coffee and candy. We take pride in the quality and selection we provide, including nut varieties that we believe are larger than those offered by many conventional supermarkets. In addition, we carry only 100% Arabica coffee beans. The substantial number of options and presentation utilizing wooden stands, crates and barrels in these departments helps reinforce the open-air Old World market feeling.

- Beer and Wine. We believe that wine enhances our customers' food experience. We offer a carefully selected assortment of highly-ranked wines at affordable prices, everyday wines and wine from local vintners. We also offer beers from local, domestic and foreign brewers. Beer and wine sales are subject to applicable law and may not be available in every store.

- Floral and Gifts. Lively, elegant floral displays greet our customers when they enter the store. In order to offer our customers attractive seasonal flowers at peak blooming, we regularly vary the selection of our floral offerings, which include our top-selling roses, orchids and tulips. Our gift selection includes candles, cookbooks, kitchen items and seasonal and holiday gift baskets.

- Health and Beauty. We strive to offer a selection of natural and specialty health and beauty care items, which includes personal care items such as soap, facial cleansers, lotions, hair care products, and lip balms, as well as many wellness items to supplement a healthy lifestyle. We offer a variety of "The Fresh Market" brand vitamins and herbal supplements as well as numerous other health and lifestyle products.

We believe our ability to identify, source, merchandise and market differentiated products is critical to our success. We carefully select new products based on a variety of attributes including taste, color, size, grade, marbling, growing conditions, origins and freshness. Our centralized merchandising team rigorously rotates, updates and re-evaluates our existing merchandise offerings and regularly tests new products in our stores to excite our customers and to better understand customer preferences. Although our typical store carries approximately 10,000 to 11,000 SKUs at any one time, our stores carry many more SKUs over the course of a year. This allows us to maintain a consistent flow of new and seasonal products in our stores and keep our product assortment fresh and relevant.

Pricing Strategy

By maintaining our commitment to providing premium products at reasonable prices, we believe we are able to communicate to our customers a sense of value and foster a relationship of trust, which in turn generates customer loyalty. We attract customers to our stores based on the variety and quality of our products and a differentiated shopping experience.

Our pricing decisions are driven by the limited direct overlap between our product offerings and the products offered by most conventional supermarkets. Where our products are directly comparable to those offered by our competitors, such as grocery and dairy staples, beer and wine, we aim to price them competitively, and where our products are recognizably distinct from those offered by our competitors, such as our produce, meat and seafood, we aim to price them commensurate with the quality of our products. Examples of such products include our Honey Crisp apples, because of their size, color and lack of bruising, and our ground beef, which is ground fresh in our stores every day and contrasts with that carried by many conventional supermarkets, who typically rely upon mechanically separated beef processed at a central processing facility and available for sale many days after the product was ground.

We may periodically promote and offer special pricing on select items for limited periods of time to attract new customers and encourage existing customers to try new or additional product offerings.

Stores

Our stores are organized around distinct departments with engaging merchandise displays that reinforce our emphasis on freshness and service. In addition, our stores are decorated and designed to evoke a “neighborhood grocer” feel, and in some cases are customized to local and regional tastes. The careful design of our stores creates a warm, inviting atmosphere that evokes a simple elegance, with colorful product presentations, accent lighting and music. The aroma of flowers, coffee and freshly baked goods permeates the stores and other amenities, such as free coffee daily and cut-to-order meats, enhance the shopping experience for our customers. The Fresh Market store atmosphere is meant to encourage the customer to slow down, interact with employees and enjoy the shopping experience.

Each of our stores uses standardized product display fixtures with flexible arrangement and design options that enable us to accommodate each store’s distinct shape, size and layout. Each of our discrete departments, such as deli, bakery, seafood

and meat, has several well-developed merchandising and display alternatives to optimize the available space. We position our full-service departments adjacent to each other to provide a "market feel" and foster interaction between employees and customers. As a result, although departments are systematically arranged, they appear customized to local tastes. This further reinforces our ability to successfully replicate our customers' shopping experience and retain the charm of a "neighborhood grocer."

Store Staffing and Operations

Our typical store is staffed with approximately 70-80 full- and part-time employees including a store manager, two to three assistant store managers and five department heads. The store management team is responsible for all aspects of store execution, including managing inventory and cash, maintaining a clean and engaging store environment, and hiring, training and supervising our store employees. Importantly, we encourage our employees, especially our store managers, to engage regularly with our customers. To facilitate interaction between staff and customers, our store managers are typically positioned on our selling floor, near our service counters.

In addition, we employ a dedicated new store opening team, including a new store operations manager, which is exclusively focused on the new store opening process. We believe this allows us to seamlessly open new stores while our field management team can focus on continuing to improve the performance of our existing stores.

Our stores are generally open seven days a week from 8:00 am to 9:00 pm each day. Certain stores may open at 7:00 am or close at 10:00 pm.

Training and Development

We believe that our success and our growth are dependent upon hiring, training, retaining, developing and promoting qualified and enthusiastic employees who share our passion for delivering an extraordinary food shopping experience. We maintain a significant and growing resource library of training materials that facilitates the identification and exchange of expertise across all of our operations. Nearly all of our store managers and district managers are promoted from within, and we actively track and encourage mobility to ensure a sufficient pipeline of store managers and assistant store managers.

We provide our store management a number of analytical tools and training programs designed specifically to support the demands of operating a small-box, perishables-focused format. These tools include order review systems, production tools and labor scheduling programs, all of which ensure that we maintain high in-stock levels, minimize shrink and match staffing levels to sales volume and mix. In addition, we provide hands-on training and educational programs to our store employees and assistant managers.

We believe this comprehensive support allows our store management and employees to optimize the operating performance of our stores while fostering a "neighborhood grocer" feel for our customers.

Sourcing and Distribution

We source our products from over 1,000 vendors and suppliers. Our in-house merchants source only those products that meet our high specifications for quality, and we maintain strict control over the products that are sold in our stores.

Our current distribution strategy is to capitalize on the capabilities of third-party logistics providers and, as such, we do not own warehouses, distribution facilities or transportation equipment. We currently outsource substantially all of our logistics functions to third-party distributors and vendors.

We believe that our distribution strategy enables us to:

- focus on our core competency of in-store food retail rather than logistics; and

- capture scale efficiencies and increase negotiating power with both our suppliers and our distributors.

With our logistics arrangements we seek to increase our efficiency, generate higher margins and achieve better returns. As a result, we are willing to switch logistics providers or consider new strategies from time to time when appropriate.

Since 2007, Burris Logistics has been our primary logistics provider, and has managed inventory replenishment, warehouse operations and transportation for all of our stores. Burris Logistics warehoused and distributed products that

accounted for approximately 57% of the merchandise we purchased during fiscal 2014. The term of our agreement with Burris Logistics, as amended, extends into February 2018. We expect that Burris Logistics will have sufficient capacity to accommodate our anticipated growth through the short and medium term and that we have various alternatives, including Burris Logistics, available to us for long-term growth.

We also have certain direct to store vendors that distribute across all our stores, as well as individual, store-managed relationships with local vendors.

Marketing and Advertising

We believe that the distinct and superior food shopping experience we offer our customers, and our customers' association of that shopping experience with The Fresh Market, are major drivers of our comparable store sales and enable us to spend less on advertising than our conventional competitors. We rely significantly on favorable word-of-mouth publicity to drive sales growth rather than traditional advertising activities, such as weekly newspaper circulars that are focused on price promotions. In fiscal 2014, our marketing expense was 0.3% of annual revenues, which we believe is significantly lower than that of most of our competitors. We spend most of our marketing budgets on in-store merchandising-related activities, including promotional signage and events such as cooking demonstrations, product samplings and other seasonal events. We use in-store signage and a monthly magazine titled "Inspirations" to highlight new products and any differentiated aspects of our products.

To supplement our in-store signage and word-of-mouth publicity, we also engage in targeted marketing activities to drive awareness, customer engagement and loyalty. These activities include focused media buys in prioritized markets (e.g., to support grand openings), public relations strategies, personalized marketing in the form of email and direct mail, social media dialogue, and local community engagement through partnerships, sponsorships and charitable donations. We also distribute a weekly electronic newsletter named “Fresh Ideas” to share new products, seasonal produce, recipes and weekly specials with our customers.

In addition, our website enables customers to learn more about us and read about food-related topics that may be of interest to them. The website also provides an opportunity for customers to request a newsletter and place catering and holiday meal orders online. We also collect customer feedback through a dedicated customer loyalty team, monitoring of social media dialogue, and a receipt-based customer satisfaction survey.

Competition

Food retail is a large and competitive industry. Our competition varies and includes national conventional supermarkets such as Kroger and Safeway, regional conventional supermarkets such as Harris Teeter, Giant and Publix, national superstores such as Wal-Mart and Target, alternative food retailers such as Whole Foods Market, Trader Joe’s and Sprouts Farmers Market, and local conventional supermarkets, natural foods stores, smaller specialty stores and farmers’ markets. Each of these stores competes with us on the basis of product selection and quality, customer service, store format, location and price, or a combination of these factors. We believe our commitment to high-quality perishable offerings at competitive prices and our focus on customer service differentiate us in this marketplace.

Intellectual Property

We believe that our intellectual property has substantial value and has contributed to the success of our business. In particular, our trademarks, including our registered The Fresh Market, Experience the Food and TFM trademarks, are valuable assets that reinforce our customers’ favorable perception of our stores. In addition to our trademarks, we believe that our trade dress, which includes the design, arrangement, color scheme and other physical characteristics of our stores and product displays, is a large part of the “neighborhood grocer” atmosphere we create in our stores and enables customers to distinguish our stores and products from those of our competitors.

From time to time, third parties have used names similar to ours, have applied to register trademarks similar to ours and, we believe, have infringed or misappropriated our intellectual property rights. Third parties have also, from time to time, opposed our trademarks and challenged our intellectual property rights. We respond to these actions on a case-by-case basis. The outcomes of these actions have included both negotiated out-of-court settlements as well as litigation.

In the ordinary course of our business, we evaluate the branding of our stores and products and how they are perceived by our customers. As part of this evaluation, we regularly develop new marks and explore using existing marks in new ways. Whether or not our The Fresh Market trademark rights are challenged in the future, we may decide (1) to continue to use The Fresh Market name and related design, (2) to use our other existing trademarks on a wider or different basis or (3) to develop

new trademarks, which could also incorporate The Fresh Market name. If we undertake such an effort, we cannot assure you that it would be successful in strengthening our brand or improving our brand recognition or image to our customers. However, we believe that the strength of our business is driven by the distinct and superior food shopping experience we offer our customers. We therefore believe that we will be able to expand our business and pursue our growth strategy even if The Fresh Market trademark and related design mark are impaired.

Regulatory

Our stores are subject to various local, state, federal and international laws, regulations and administrative practices affecting our business. We must comply with provisions regulating health and sanitation standards, food handling and labeling, weights and measures, non-discrimination, wages and hours, licensing for the sale of food and, in many stores, licensing for beer and wine or other alcoholic beverages. The manufacturing, processing, formulating, packaging, labeling and advertising of products are subject to regulation by various federal agencies, including the Food and Drug Administration (FDA), the Federal Trade Commission, the United States Department of Agriculture, the United States Consumer Product Safety Commission and the United States Environmental Protection Agency, as well as various state and local agencies.

Insurance

We use a combination of insurance and self-insurance to provide for potential liability for workers’ compensation, automobile and general liability, product liability, directors' and officers’ liability, employee health care benefits, and other casualty and property risks. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all affect ultimate settlements of claims. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Employees

As of January 25, 2015, we employed approximately 12,400 people, consisting of approximately 7,800 full-time employees and approximately 4,600 part-time employees, none of whom are subject to a collective bargaining agreement. We believe our employee relations are good.

Seasonality

The food retail industry and our sales are affected by seasonality. Our average weekly sales fluctuate during the year and are usually highest in the fourth quarter when customers make holiday purchases.

Inflation

While inflation may impact our sales and cost of goods sold, we believe the effects of inflation on our fiscal 2014 results of operations and financial condition were moderate. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

Note on Terminology

References to “we”, “our”, “us” and the “Company” used throughout this document refer to The Fresh Market, Inc. and its subsidiaries.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and our proxy statement, and any amendments to these reports, and filings under Sections 13 and 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available on our website at www.thefreshmarket.com, as soon as reasonably practicable after we file these reports electronically with, or furnish them to, the Securities and Exchange Commission (“SEC”). Except as otherwise stated in these reports, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC.

Item 1A. Risk Factors.

Our business, financial condition and results of operations can be impacted by a number of risk factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. Any of these risks could materially and adversely affect our business, financial condition and results of operations, which in turn could materially and adversely affect the price of our common stock or other securities.

We may not be able to successfully implement our growth strategy on a timely basis or at all. Additionally, new stores may place a greater burden on our existing resources and adversely affect our existing business.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. Successful implementation of this strategy depends upon, among other things:

- the identification of suitable and available sites for store locations, including sites in new markets;

- the negotiation of acceptable lease terms for store sites;

- the ability to continue to attract customers to our stores largely through favorable word-of-mouth publicity, rather than through conventional advertising;

- the hiring, training and retention of skilled store personnel;

- the identification and relocation of experienced store management personnel;

- the effective management of inventory to meet the needs of our stores on a timely basis;

- the availability of sufficient levels of cash flow or necessary financing to support our expansion; and

- the ability to successfully address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

Although we have identified enhancements to our real estate process, which include greater emphasis on existing markets, modifying our real estate selection process and sales forecasting, and updating our white space analysis, we may not be able to identify suitable and available sites to support our growth strategy. The sites that are identified may not produce the levels of sales we predict or that are necessary for a new store to operate profitably. Further, new store openings in markets where we have existing stores may result in reduced sales volumes at our existing stores in those markets.

We, or our third-party vendors, may not be able to adapt our distribution, management information and other operating systems to adequately supply products to new stores at competitive prices so that we can operate the stores in a successful and profitable manner. We currently do not participate in many of the traditional marketing activities of conventional food retailers, and rely significantly on favorable word-of-mouth publicity to drive sales. We cannot assure you that we will continue to grow through new store openings or through favorable word-of-mouth publicity in the future. Additionally, store expansion into geographic areas in which we currently do not operate may place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our existing business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. If we experience a decline in performance, or new stores or new markets do not meet our expectations, we may slow or discontinue store openings, or we may decide to close individual stores or exit a market, as we did in exiting the California market in March 2015. In the past fifteen years, we have closed nine stores before the expiration of their primary lease terms, four of which were closed during fiscal 2014 and three of

which were closed subsequent to the end of that fiscal year, and all of which were in new markets outside our historical footprint. If we fail to successfully implement our growth strategy, including by opening new stores, our financial condition and operating results may be adversely affected.

Our new store base, or stores opened or acquired in the future, may negatively impact our financial results in the short term and may not achieve sales and operating levels consistent with our mature store base on a timely basis or at all.

We have actively pursued new store growth in existing and new markets and plan to continue doing so in the future. Our growth continues to depend, in part, on our ability to open and operate new stores successfully. New stores may not achieve sustained sales and operating levels consistent with our mature store base on a timely basis or at all. This may have an adverse effect on our financial condition and operating results. In addition, if we acquire stores in the future, we may not be able to successfully integrate those stores into our existing store base and those stores may not be as profitable as our existing stores. We cannot assure you that our new store openings will be successful or result in greater sales and profitability for the Company. New stores build their sales volume and their customer base over time and, as a result, generally have lower gross margin rates and higher operating expenses, as a percentage of net sales, than our more mature stores. New store openings may negatively impact our financial results in the short term due to the effect of pre-opening and applicable store management relocation costs and lower sales and contribution to overall profitability. In addition, our comparative results from one fiscal period to another may be impacted by the relative timing of new store openings within those fiscal periods. Any failure to successfully open and operate new stores in the time frames and at the costs estimated by us could adversely affect our financial condition and operating results and result in a decline of the price of our common stock.
Another factor is our success in developing stores in new markets. There are inherent risks in opening new stores, especially in new markets, including the lack of experience, logistical support, and brand awareness. Some of our new stores, including those opened in Texas in fiscal 2014, may be located in areas where we have little or no brand recognition in local markets. Those markets may have different competitive and market conditions, consumer tastes and discretionary spending patterns than our existing markets, as well as higher costs of entry, which may cause our new stores to be less successful than stores in existing markets. These factors may result in lower than anticipated sales and cash flow for stores in new markets along with higher pre-opening costs. In the event stores in new markets do not achieve the sales that we expect, we may expend additional resources through advertising, promotions or service offerings in order to improve sales performance. Further, if expected sales are not achieved and our efforts to increase sales and store profitability do not succeed, we may be forced to take an impairment charge, if future undiscounted cash flows expected to be generated by an asset group does not exceed the carrying value of that asset group, or close the underperforming store.

Our inability to maintain or improve levels of comparable store sales growth could have a material adverse effect on our business, financial condition and results of operations and cause our stock price to decline.

We may not be able to maintain or improve the levels of comparable store sales growth that we have experienced in the past. In addition, our overall comparable store sales have fluctuated in the past and will likely fluctuate in the future. A variety of factors affect comparable store sales, including consumer preferences, buying trends and spending levels, competition, economic conditions, product pricing and availability, in-store merchandising-related activities, consumer perceptions of our stores, the frequency with which consumers visit our stores, and our ability to source and distribute products efficiently. In addition, many specialty retailers have been unable to sustain high levels of comparable store sales growth during and after periods of substantial expansion. These factors may cause our comparable store sales results to be materially lower than in past periods, which could have a material adverse effect on our business, financial condition and results of operations and result in a decline in the price of our common stock.

Our inability to maintain or increase our operating margins could adversely affect our results of operations and the price of our stock.

We may not be able to maintain or increase our operating margins. If we are unable to successfully manage the potential difficulties associated with store growth, we may not be able to capture the scale efficiencies that we expect from expansion. If we are not able to capture scale efficiencies, improve our systems, continue our cost discipline and enhance our merchandise offerings, we may not be able to achieve our goals with respect to operating margins. In

addition, if we do not adequately refine and improve our various ordering, tracking and allocation systems, we may not be able to increase sales and reduce inventory shrinkage. As a result, our operating margins may stagnate or decline, which could adversely affect the price of our stock.

Economic conditions that impact consumer spending could materially affect our business.

Ongoing economic uncertainty continues to negatively affect consumer confidence and discretionary spending. Our results of operations may be materially affected by changes in overall economic conditions that impact consumer confidence

and spending, including discretionary spending. This risk may be exacerbated if customers choose lower-cost alternatives to our product offerings in response to economic conditions, or if consumers perceive our stores as destinations for special occasions rather than regular shopping. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of consumer credit, interest rates, tax rates, and fuel and energy costs, could reduce consumer spending or cause consumers to shift their spending to lower-priced competitors. In addition, inflation or deflation can impact our business. Food deflation could reduce sales growth and earnings, while food inflation, combined with reduced consumer spending, could reduce gross profit margins. As a result, our results of operations could be materially adversely affected.

We face competition in our industry, and our failure to compete successfully may have an adverse effect on our profitability and operating results.

Food retail is a large and competitive industry. Our competition varies and includes national, regional and local conventional supermarkets, national superstores, alternative food retailers, natural foods stores, smaller specialty stores, and farmers' markets. Each of these stores competes with us on the basis of product selection and quality, customer service, store format, location and price, or a combination of these factors. In addition, some competitors are aggressively expanding their number of stores or their product offerings, including within our core markets in the southeastern United States where competition in the past had been less intense. In their new or remodeled stores, our competitors often increase the space allocated to perishable food and specialty food categories, which are our core categories. Some of these competitors may have been in business longer or may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting and selling their products. As competition in certain areas intensifies or competitors open stores within close proximity to our stores, our results of operations may be negatively impacted through a loss of sales, reduction in margin from competitive price changes or greater operating costs. Further, any attempt by a competitor to copy or mimic our smaller-box format or operating model could materially impact our business, results of operations and financial condition by causing a decrease in our market share and our sales and operating results. Increased competition may also make obtaining suitable sites for new stores and employee retention more difficult and raise our occupancy costs and our cost of hiring and retaining qualified employees.

We may be unable to protect or maintain our intellectual property, including The Fresh Market trademark, which could result in customer confusion and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed to the success of our business. In particular, our trademarks, including our registered The Fresh Market, Experience the Food and TFM trademarks, are valuable assets that reinforce our customers' favorable perception of our stores.

From time to time, third parties have used names similar to ours, have applied to register trademarks similar to ours and, we believe, have infringed or misappropriated our intellectual property rights. If we are unable to prevent third parties from using such names and trademarks, the value of our registered trademarks may be diluted and customer confusion may result. Third parties have also, from time to time, opposed our trademarks and challenged our intellectual property rights. We respond to these actions on a case-by-case basis. The outcomes of these actions have included both negotiated out-of-court settlements as well as litigation.

In the ordinary course of our business, we evaluate the branding of our stores and products and how they are perceived by our customers. As part of this evaluation, we regularly develop new marks and explore using existing marks in new ways. Whether or not our The Fresh Market trademark rights are challenged in the future, we may decide (1) to continue to use The Fresh Market name and related design, (2) to use our other existing trademarks on a wider or different basis or (3) to develop new trademarks, which could also incorporate The Fresh Market name. If we undertake such an effort, we cannot assure you that it would be successful in strengthening our brand or improving

our brand recognition or image to our customers. However, we believe that the strength of our business is driven by the distinct and superior food shopping experience we offer our customers. We therefore believe that we will be able to expand our business and pursue our growth strategy even if The Fresh Market trademark and related design mark are impaired.

Our success depends on our ability to identify, source and market new products that meet our high standards and customer preferences and our ability to offer our customers an aesthetically pleasing shopping environment.

Our success depends on our ability to identify, source and market new products that both meet our standards for quality and appeal to customers’ preferences. Consumer preferences may change rapidly and without warning. A change in

---

consumer preferences away from our offerings could have a material adverse effect on our business. A small number of our employees, including our in-house merchants, are primarily responsible for both sourcing products that meet our high specifications and identifying and responding to changing customer preferences. Failure to source and market such products, or to accurately forecast changing customer preferences, could lead to a decrease in the number of customer transactions at our stores and a decrease in the amount customers spend when they visit our stores. In addition, the sourcing of our products is dependent, in part, on our relationships with our vendors. If we are unable to maintain these relationships we may not be able to continue to source products at competitive prices that both meet our standards and appeal to our customers. We also attempt to create a pleasant and appealing shopping experience. If we are not successful in creating a pleasant and appealing shopping experience we may lose customers to our competitors. If we do not succeed in maintaining good relationships with our vendors and in introducing and sourcing new products that consumers want to buy, or if we are unable to provide a pleasant and appealing shopping environment or maintain our level of customer service, our sales, operating margins and market share may decrease, resulting in reduced profitability.

Our stores rely heavily on sales of perishable products, and ordering errors or product supply disruptions may have an adverse effect on our profitability and operating results.

We have a significant focus on perishable products. Sales of perishable products accounted for approximately two-thirds of our total sales in fiscal 2014. We rely on various suppliers and vendors to provide and deliver our perishable product inventory on a continuous basis. We could suffer significant product inventory losses in the event of the loss of a major supplier or vendor, disruption of our distribution network, extended power outages, natural disasters or other catastrophic occurrences. We have implemented certain systems to ensure our ordering is in line with demand. We cannot assure you, however, that our ordering systems will always work efficiently, in particular in connection with the opening of new stores, which have no, or a limited, ordering history. If we were to over-order, we could suffer inventory losses, which would negatively impact our operating results, while under-ordering could leave us unable to meet consumer demand.

Increased commodity prices may impact profitability.

Many of our products include ingredients such as wheat, corn, oils, milk, sugar, cocoa and other commodities. Commodity prices worldwide have been increasing. While commodity prices do not typically represent the substantial majority of our product costs, any increase in commodity prices may cause our vendors to seek price increases from us. Although we typically are able to resist vendor efforts to increase costs to us, we may be unable to continue to do so, either in whole or in part. In the event we are unable to resist our vendors' requests to obtain price increases, we may in turn consider raising our prices, and our customers may resist any such price increases. Our profitability may be impacted through increased costs to us which may impact gross margins or through reduced revenue as a result of a decline in the number and average size of customer transactions.

The current geographic concentration of our stores creates an exposure to local economies, regional downturns or severe weather or catastrophic occurrences that may materially adversely affect our financial condition and results of operations.

As of January 25, 2015, we operated 40 stores in Florida, making Florida our largest market and representing 24% of our total stores. We also have store concentration in North Carolina, Virginia and Georgia, operating 19 stores, 13 stores, and 12 stores in those states, respectively. As a result, our business is currently more susceptible to regional conditions than the operations of more geographically diversified competitors, and we are vulnerable to economic downturns in those regions. Any unforeseen events or circumstances that negatively affect these areas could materially adversely affect our revenues and profitability. These factors include, among other things, changes in demographics and population.

Severe weather conditions and other catastrophic occurrences in areas in which we have stores or from which we obtain products may materially adversely affect our results of operations. Such conditions may result in physical damage to our stores, loss of inventory, closure of one or more of our stores, inadequate work force in our markets, temporary disruption in the supply of products, delays in the delivery of goods to our stores and a reduction in the availability of products in our stores. Any of these factors may disrupt our businesses and materially adversely affect our financial condition and results of operations.

We have significant lease obligations, which may require us to continue paying rent for store locations that we no longer operate.

All of our stores are leased and we are subject to risks associated with our current and future real estate leases for our stores. Our costs could increase because of changes in the real estate markets, entry into new, higher cost markets and supply or

demand for real estate sites. We generally cannot cancel our leases, so if we decide to close or relocate a location, we may nonetheless be committed to perform our obligations under the applicable lease, including paying the base rent for the remaining lease term, and we may not be able to find acceptable assignees or sublessees for such locations. As each lease expires, we may fail to negotiate renewals, either on commercially acceptable terms or any terms at all and we may not be able to find replacement locations that will provide for the same success as current store locations.
Our high level of fixed lease obligations could adversely affect our financial performance.

Our high level of fixed lease obligations will require us to use a portion of cash generated by our operations to satisfy these obligations, and could adversely impact our ability to obtain future financing, if required, to support our growth or other operational investments. We will require substantial cash flows from operations to make our payments under our leases, which generally provide for periodic increases in rent. If we are not able to make the required payments under the leases, the owners of the relevant properties may, among other things, repossess those assets, which could adversely affect our ability to conduct our operations. In addition, our failure to make payments under certain leases could trigger defaults under agreements governing our indebtedness, which could cause the counterparties under those agreements to accelerate the obligations due thereunder.

Future consumer, employment or other litigation could adversely affect our financial condition and results of operation.

Our retail operations are characterized by transactions involving a wide array of product selections, including prepared food. These operations carry a higher exposure to consumer litigation risk when compared to the operations of companies operating in many other industries. Consequently, we have been, are, and may in the future become a party to individual personal injury, products liability and other legal actions in the ordinary course of our business. While these actions are generally routine in nature, incidental to the operation of our business and immaterial in scope, if our assessment of any action or actions should prove inaccurate, our financial condition and results of operations could be adversely affected. Additionally, we are occasionally exposed to industry-wide or class-action claims arising from the products we carry or industry-specific business practices.

We also have been, are, and may in the future become subject to claims for discrimination, harassment, wages and hours, and other federal and or/state employment matters, including claims that may be brought on behalf of a putative class of employees. For example, we are party to a lawsuit that was filed against us in U.S. District Court in Connecticut alleging that the manner in which we implemented and applied the fluctuating workweek method for calculating overtime due to our department managers violated the federal Fair Labor Standards Act. Certain claims asserted in such lawsuits, if resolved against us, could give rise to substantial damages. Our defense costs and any resulting damage awards or settlement amounts may not be covered by our insurance policies. Thus, an unfavorable outcome or settlement of one or more of these lawsuits could have a material adverse effect on our financial position, liquidity and results of operations in a particular period or periods.

Our business could be harmed by a failure of our information technology, administrative or outsourcing systems, including a security breach.
We rely on our information technology, administrative and outsourcing systems to effectively manage our business data, communications, supply chain, order entry and fulfillment and other business processes, such as our financial and reporting systems. The failure of our information technology, administrative or outsourcing systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business to suffer. In addition, our information technology, administrative and outsourcing systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, viruses and other malware, security breaches, including breaches of our transaction processing or other systems that could result in the compromise of confidential or sensitive customer, employee or Company data, and usage errors or other actions by an employee. Further, we process a large number of credit and debit card transactions each year. We may also collect and store personal information relating to our employees and

customers. A security breach may compromise the security of such credit and debit card transactions or such personal information, as well as confidential or sensitive corporate information, and may continue undetected for a period of time, increasing the potential impact on such data. Due to the evolving nature of cyber security threats, the scope and impact of any incident cannot be predicted. While we actively manage information technology security risks within our control to protect against data security breaches, there can be no assurance that such breaches will not occur, be detected in a timely manner or be covered by insurance. Any such breach, damage or interruption could have a material adverse effect on our business, result in the disclosure of confidential, sensitive, or proprietary business information, cause us to face significant fines, customer notice obligations or costly litigation, harm our reputation with our customers,

reduce customers' willingness to use credit and debit cards in our stores, require us to expend significant time and expense developing, maintaining or upgrading our information technology, administrative or outsourcing systems or prevent us from paying our suppliers or employees, receiving payments from our customers or performing other information technology, administrative or outsourcing services on a timely basis. Data security breaches are increasing in frequency and sophistication and breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new federal and state laws and legislative proposals addressing data privacy and security, as well as increased data protection obligations imposed on merchants by credit card issuers. As a result, we may become subject to more extensive requirements to protect the financial and personal information that we handle, and incur significant compliance costs.

Changes in accounting standards and estimates could materially impact our results of operations.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations for many aspects of our business, such as accounting for inventories, impairment of long-lived assets, insurance reserves, closed store reserves, leases, unclaimed property laws, income taxes and share-based compensation, are highly complex and involve subjective judgments. Changes in these rules or their interpretation or changes in underlying estimates, assumptions or judgments by our management could significantly change our reported or expected earnings.
Also, new accounting guidance may require systems and other changes that could increase our operating costs or change our financial statements. Implementing future accounting guidance related to leases and other areas impacted by the current convergence project between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) could require us to make significant changes to our lease management system or other accounting systems, and could result in changes to our financial statements.
Risks associated with insurance plan claims and actuarial estimates could increase future expenses.

We use a combination of insurance and self-insurance to provide for potential liability for workers' compensation, automobile and general liability, product liability, director and officers' liability, employee health care benefits, and other casualty and property risks. The liability for these claims has been determined using actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers and changes in discount rates could all affect the level of reserves required and could cause material future expense to maintain reserves at appropriate levels.

Health care reform could adversely affect our business.

Our expenses relating to employee health benefits are significant. In March 2010, the United States government enacted health care reform legislation that required significant changes to the health care payment and delivery system. The health care reform legislation requires employers to provide employees with insurance coverage that meets minimum eligibility and coverage requirements or face penalties. The legislation includes provisions that will impact the number of individuals with insurance coverage, the types of coverage and the level of health benefits that will be required and the amount of payment health care providers will receive. Although many of the provisions of the health care reform legislation have not yet become effective, we anticipate our compliance with such provisions may increase our employee healthcare-related costs and therefore our operating expenses.
Energy costs are a significant component of our operating expenses and increasing energy costs, unless offset by more efficient usage or other operational responses, may impact our profitability.

We utilize natural gas, water, sewer and electricity in our stores and our third-party logistics providers use gasoline and diesel in the trucks that deliver products to our stores. Increases in energy costs, whether driven by increased demand, decreased or disrupted supply or an anticipation of any such events will increase the costs of operating our

stores and may increase the costs of our products. We may not be able to recover these rising costs through increased prices charged to our customers, and any increased prices may exacerbate the risk of customers choosing lower-cost alternatives. In addition, if we are unsuccessful in attempts to protect against these increases in energy costs through long-term energy contracts, improved energy procurement, improved efficiency and other operational improvements, the overall costs of operating our stores will increase, which would impact our profitability.

We are substantially dependent on a few key third-party vendors to provide logistical services for our stores, including services related to inventory replenishment and the storage and transportation of many of our products. A disruption in these relationships or a key distribution center, or a failure to renew or replace existing contractual relationships, may have a negative effect on our results of operations and financial condition.

We currently rely upon independent third-party service providers for all product shipments to our stores. In particular, we rely on one third-party service provider, Burris Logistics, to provide key services related to inventory management, warehousing and transportation, and, as a result, much of the product is stored at warehouses maintained by Burris Logistics. See “Item 1. Business—Sourcing and Distribution.” Products sourced and distributed through Burris Logistics accounted for approximately 57% of the merchandise we purchased during fiscal 2014.

Although we have not experienced difficulty in our inventory management, warehousing and transportation to date with Burris Logistics, interruptions could occur in the future. Further, although we expect that Burris Logistics, and our other key vendors, will have sufficient capacity to accommodate our anticipated growth, they may not have the resources to do so. Any significant disruptions in our relationship with Burris Logistics to service our stores prior to the end of the current term of our agreement, or significant disruptions in our relationships with our other key vendors, including due to their inability to accommodate our growth, would make it difficult for us to continue to operate our existing business or pursue our growth plans until we execute replacement agreements or develop and implement self-distribution processes. In addition, if our vendors fail to comply with transportation or other laws and regulations, or face allegations of non-compliance, their operations may be disrupted.

While we believe that other third-party service providers could provide similar services on reasonable terms, they are limited in number and we cannot assure you that we would be able to find a replacement distributor on a timely basis or that such distributor would be able to fulfill our demands on commercially reasonable terms, which could have a material adverse effect on our results of operations and financial condition. We also believe that other distribution strategies may be available, but any such strategies could require significant time to implement, and there is no assurance that such strategies would result in cost savings or adequate service levels. In addition, labor shortages in the transportation industry, long-term disruptions to the national and international transportation infrastructure, reduction in capacity and industry-specific regulations such as hours-of-service rules that lead to delays or interruptions of deliveries could negatively affect our business.

Products we sell could cause unexpected side effects, illness, injury or death that could result in their discontinuance or expose us to lawsuits, either of which could result in unexpected costs and damage to our reputation.

There is increasing governmental scrutiny of and public awareness regarding food safety. Unexpected side effects, illness, injury or death caused by products we sell, whether food or non-food, could result in the discontinuance of sales of these products or prevent us from achieving market acceptance of the affected products. Such side effects, illnesses, injuries and death could also expose us to product liability or negligence lawsuits. In particular, the sale of food products entails an inherent risk of product liability claims, product recalls and the resulting negative publicity. Food products containing contaminants or allergens could be inadvertently manufactured, prepared or distributed by us and, if processing at the consumer level does not eliminate them, these contaminants or allergens could result in illness or death. We cannot assure you that product liability claims will not be asserted against us or that we will not be obligated to perform product recalls in the future, whether on food or other products. Any such claims, recalls or adverse publicity with respect to our private label products may have an even greater negative effect on our sales and operating results, in addition to generating adverse publicity for our private label brand.
Any claims brought against us may exceed our existing or future insurance policy coverage or limits, or not be covered by any rights to indemnity or contribution we have against others. Our insurance carriers may contest their coverage obligations. Any judgment against us that is in excess of our available insurance coverage would have to be paid from our cash reserves, which would reduce our capital resources. Further, we may not have sufficient capital resources to pay a judgment, in which case our creditors could levy against our assets. The real or perceived sale of

contaminated or harmful products would cause negative publicity regarding the Company, or our brand or products, which could in turn harm our reputation and net sales, and could have a material adverse effect on our business, results of operations or financial condition.

We may experience negative effects to our reputation from real or perceived quality or health issues with our food products, which could have an adverse effect on our operating results.

We believe customers count on us to provide them with fresh, high-quality food products. Concerns regarding the quality or safety of our food products or our food supply chain could cause consumers to avoid purchasing certain products from us, or to seek alternative sources of food, even if the basis for the concern is unfounded, has been addressed or is outside

of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving products sold at our stores, could discourage consumers from buying our products which could have an adverse effect on our reputation, brand and operating results.

Any lost confidence on the part of our customers would be difficult and costly to reestablish. Any such adverse effect could be exacerbated by our position in the market as a purveyor of fresh, high-quality food products and could significantly reduce our brand value. Issues regarding the safety of any food items sold by us, regardless of the cause, could have a substantial and adverse effect on our sales and operating results.

If we fail to maintain our reputation and the value of our brand, our sales may decline.

We believe our continued success depends on our ability to maintain and grow the value of the The Fresh Market brand. Maintaining, promoting and positioning our brand and reputation will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high-quality customer experience. Brand value is based in large part on perceptions of subjective qualities, and even isolated incidents can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation. Our brand could be adversely affected if we fail to achieve these objectives, or if our public image or reputation were to be tarnished by negative publicity.

Consumers or regulatory agencies may challenge certain claims made regarding our products.
Products that we sell may carry claims as to their origin, ingredients or health benefits, including, by way of example, the use of terms such as “natural.” The use of these terms may not be subject to uniform standards. The resulting uncertainty has led to consumer confusion, distrust and legal challenges. Plaintiffs have commenced legal actions, including class actions, against a number of food companies that market “natural” products, asserting false, misleading and deceptive advertising and labeling claims, including claims related to genetically modified ingredients. In limited circumstances, the FDA has taken regulatory action against products labeled “natural” that nonetheless contain synthetic ingredients or components. Should we become subject to similar claims, consumers may avoid purchasing products from us or seek alternatives, even if the basis for the claim is unfounded. Adverse publicity about these matters may discourage consumers from buying our products. The cost of defending against any such claims could be significant. Any loss of confidence on the part of consumers in the truthfulness of our labeling or ingredient claims would be difficult and costly to overcome and may significantly reduce our brand value. Any of these events could adversely affect our reputation and brand and decrease our sales, which would have a material adverse effect on our business, financial condition and results of operations.

The occurrence of a widespread health epidemic could materially adversely affect our financial condition and results of operations.

Our business may be severely impacted by a widespread regional, national or global health epidemic, such as pandemic flu. Such an epidemic could materially adversely affect our business by disrupting production and delivery of products to our stores, by impacting our ability to appropriately staff our stores and by causing customers to avoid public gathering places, such as our stores, or otherwise change their shopping behaviors.

						94.1 %	929	977
Orlando, FL	12	3,476	3.8 %	219,802	47,871	63,234	93.1 %	900	955
Nashville, TN	10	2,966	3.2 %	187,754	71,585	63,302	95.1 %	747	918
Jacksonville, FL	4	1,557	1.9 %	110,344	17,043	70,870	94.0 %	845	913
Atlanta, GA	6	1,426	1.5 %	84,779	23,884	59,452	95.4 %	701	908
Other Florida									

	8	2,400	2.8 %	164,164	52,588	68,402	91.6 %	918	917
Other Southeastern	7	1,752	1.4 %	79,467		45,358	95.2 %	644	819
SOUTHWESTERN REGION									
Houston, TX	16	5,447	4.6 %	265,438	40,693	48,731	94.4 %	677	811
Dallas, TX	6	2,684	3.4 %	199,570	23,971	74,355	94.2 %	811	909
Arlington, TX	6	1,828	1.6 %	95,916	20,543	52,470	94.5 %	679	807
Phoenix, AZ	4	1,234	1.6 %	92,293	27,771	74,792	93.7 %	905	1,008
Austin, TX	5	1,425	1.5 %	87,073	6,073	61,104	96.4 %	726	805
Denver, CO	2	884	1.2 %	70,425		79,666	91.9 %	748	878
Other Southwestern	6	2,469	2.6 %	149,892	41,674	60,710	95.7 %	739	879

18

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Encumbrances (In thousands)	Cost per Home	Physical Occupancy	Total Income per Occupied Home(a)	Averag Home Size (Squar Feet)
IIDWESTERN REGION									
olumbus, OH	6	2,530	2.8%	165,785	40,635	65,528	93.5%	734	904
ther Midwestern	3	444	0.4%	24,890	6,241	56,059	91.4%	763	955
eal Estate Under Development	1	24	1.1%	63,828		n/a	n/a	n/a	n/a
and	n/a	n/a	2.5%	144,633	67,674	n/a	n/a	n/a	n/a
otal Apartments(b)	242	70,339	99.6%	$ 5,795,641	$ 1,172,643	$ 82,396	94.3%	$ 899	895
ommercial Property	n/a	n/a	0.3%	20,390	10,276	n/a	n/a	n/a	n/a
ichmond Corporate	n/a	n/a	0.1%	4,091		n/a	n/a	n/a	n/a
otal Real Estate Owned	242	70,339	100.0%	$ 5,820,122	$ 1,182,919	$ 82,396	94.3%	$ 899	895

(a) Total Income per Occupied Home represents total revenues per weighted average number of homes occupied.

(b) Includes real estate held for disposition, real estate under development, and land, but excludes commercial property.

Item 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims arising in the ordinary course of business. We cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. We believe that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on our financial condition, results of operations or cash flow.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of the year ended December 31, 2006.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock is traded on the New York Stock Exchange under the symbol UDR. The following tables set forth the quarterly high and low sale prices per common share reported on the NYSE for each quarter of the last two fiscal years. Distribution information for common stock reflects distributions declared per share for each calendar quarter and paid at the end of the following month.

	High	Low	Distributions Declared
2006			
1st Quarter	$ 29.05	$ 23.41	$ .3125
2nd Quarter	28.82	25.50	.3125
3rd Quarter	30.81	26.97	.3125
4th Quarter	33.75	29.95	.3125
2005			
1st Quarter	$ 24.75	$ 20.55	$ .3000
2nd Quarter	24.15	20.57	.3000
3rd Quarter	25.97	22.70	.3000
4th Quarter	23.97	20.88	.3000

On February 20, 2007, the closing sale price of our common stock was $33.95 per share on the NYSE and there were 5,871 holders of record of the 135,544,953 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 38% of the distributions for each of the four quarters of 2006 represented ordinary income, 37% represented long-term capital gain, and 25% represented unrecaptured section 1250 gain.

We pay regular quarterly distributions to holders of shares of our common stock. Future distributions will be at the discretion of our board of directors and will depend on our actual funds from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, and other factors. The annual distribution payment for calendar year 2006 necessary for us to maintain our status as a REIT was approximately $0.43 per share of common stock. We declared total distributions of $1.25 per share of common stock for 2006.

Series E Preferred Stock

The Series E Cumulative Convertible Preferred Stock has no stated par value and a liquidation preference of $16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder s option into one share of our common stock. The holders of the Series E are

entitled to vote on an as-converted basis as a single class in combination with the holders of common stock at any meeting of our stockholders for the election of directors or for any other purpose on which the holders of common stock are entitled to vote. The Series E has no stated maturity and is not subject to any sinking fund or any mandatory redemption.

Distributions declared on the Series E in 2006 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2006, a total of 2,803,812 shares of the Series E were outstanding.

Table of Contents

Series F Preferred Stock

We are authorized to issue up to 20,000,000 shares of our Series F Preferred Stock. Our Series F Preferred Stock may be purchased by holders of our operating partnership units, or OP Units, described below under Operating Partnership Units, at a purchase price of $0.0001 per share. OP Unitholders are entitled to subscribe for and purchase one share of our Series F Preferred Stock for each OP Unit held. At December 31, 2006, a total of 666,293 shares of the Series F Preferred Stock were outstanding at a value of $66.63. Holders of the Series F Preferred Stock are entitled to one vote for each share of the Series F Preferred Stock they hold, voting together with the holders of our common stock, on each matter submitted to a vote of securityholders at a meeting of our stockholders. The Series F Preferred Stock does not entitle its holders to any other rights, privileges or preferences.

Dividend Reinvestment and Stock Purchase Plan

We have a Dividend Reinvestment and Stock Purchase Plan under which holders of our common stock and our Series B Cumulative Redeemable Preferred Stock may elect to automatically reinvest their distributions and make additional cash payments to acquire additional shares of our common stock. Stockholders who do not participate in the plan continue to receive dividends as declared. As of February 20, 2007, there were 3,372 participants in the plan.

Operating Partnership Units

From time to time we issue shares of our common stock in exchange for OP Units tendered to our operating partnerships, United Dominion Realty, L.P. and Heritage Communities L.P., for redemption in accordance with the provisions of their respective partnership agreements. At December 31, 2006, there were 9,692,058 OP Units (of which 1,650,322 are owned by the holders of the Series A OPPS) and 329,207 OP Units in United Dominion Realty, L.P. and Heritage Communities L.P., respectively, that were owned by limited partners. The holder of the OP Units has the right to require United Dominion Realty, L.P. to redeem all or a portion of the OP Units held by the holder in exchange for a cash payment based on the market value of our common stock at the time of redemption. However, United Dominion Realty, L.P. s obligation to pay the cash amount is subject to the prior right of the company to acquire such OP Units in exchange for either the cash amount or shares of our common stock. Heritage Communities L.P. OP Units are convertible into common stock in lieu of cash, at our option, once the holder elects to convert, at an exchange ratio of 1.575 shares for each OP Unit. During 2006, we issued a total of 381,001 shares of common stock in exchange for OP Units.

Purchases of Equity Securities

In February 2006, our Board of Directors authorized a new 10 million share repurchase program. This program replaces our previous 11 million share repurchase program (of which 1,180,737 shares were available for repurchase) and authorizes the repurchase of our common stock in open market purchases, in block purchases, privately negotiated transactions, or otherwise. As reflected in the table below, no shares of common stock were repurchased under this program or otherwise during the quarter ended December 31, 2006.

Table of Contents

The following table sets forth certain information regarding our common stock repurchases during the quarter ended December 31, 2006:

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2006 through October 31, 2006	0	N/A	0	10,000,000
November 1, 2006 through November 30, 2006	0	N/A	0	10,000,000
December 1, 2006 through December 31, 2006	0	N/A	0	10,000,000
Total	0	N/A	0	10,000,000

Recent Sales of Unregistered Securities

On October 12, 2006, we completed the sale of $250 million principal amount of our 3.625% convertible senior notes due 2011. These notes are convertible into shares of our common stock at an initial conversion rate of 26.6326 shares per $1,000 principal amount of notes, which equates to an initial conversion price of approximately $37.55 per share. Because the notes and the shares of common stock issuable upon conversion of the notes were sold to accredited investors in transactions not involving a public offering, the transactions are exempt from registration under the Securities Act of 1933 in accordance with Section 4(2) of the Securities Act. In connection with the offering of the notes, we also entered into a capped call transaction with respect to our common stock with JPMorgan Chase Bank, National Association, London Branch, an affiliate of one of the initial purchasers of the notes. The capped call transaction covers, subject to anti-dilution adjustments similar to those contained in the notes, approximately 6,658,150 shares of our common stock. Information regarding the offering of our 3.625% convertible senior notes due 2011, the shares of our common stock issuable upon conversion of the notes, and the capped call transaction is set forth in our Current Report on Form 8-K dated October 5, 2006 and filed with the SEC on October 12, 2006, and is incorporated herein by reference.

Table of Contents

Comparison of Cumulative Total Returns

The following graph provides a comparison from December 31, 2001 through December 31, 2006 of the cumulative total stockholder return (assuming reinvestment of any dividends) among UDR, the NAREIT Equity REIT Index, Standard & Poor s 500 Stock Index, the NAREIT Equity Apartment Index and the MSCI US REIT Index. The graph assumes that $100 was invested on December 31, 2001, in each of our common stock and the indices presented. Historical stock price performance is not necessarily indicative of future stock price performance.

Performance Graph

	December 31					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
UDR	$ 100	$ 122.30	$ 153.29	$ 210.58	$ 209.93	$ 297.63
NAREIT Equity REIT Index	$ 100	$ 103.82	$ 142.37	$ 187.33	$ 210.12	$ 283.78
S&P 500 Index	$ 100	$ 77.90	$ 100.24	$ 111.15	$ 116.61	$ 135.02
NAREIT Equity Apartment Index	$ 100	$ 93.85	$ 117.77	$ 158.66	$ 181.91	$ 254.57
MSCI US REIT Index	$ 100	$ 103.51	$ 141.72	$ 186.70	$ 208.95	$ 284.00

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Report into any filing under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this information by reference.

Table of Contents

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial and other information as of and for each of the years in the five-year period ended December 31, 2006. The table should be read in conjunction with our consolidated financial statements and the notes thereto, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Report.

	Years Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2006	**2005**	**2004**	**2003**	**2002**
Operating Data(a)					
Rental income	**$ 694,473**	$ 621,904	$ 513,463	$ 450,572	$ 429,726
(Loss)/income before minority interests and discontinued operations	**(30,026)**	(81)	5,928	5,039	(31,210)
Income from discontinued operations, net of minority interests	**156,012**	154,437	90,176	63,318	82,151
Net income	**128,605**	155,166	97,152	70,404	53,229
Distributions to preferred stockholders	**15,370**	15,370	19,531	26,326	27,424
Net income available to common stockholders	**113,235**	139,796	71,892	24,807	25,805
Common distributions declared	**168,408**	163,690	152,203	134,876	118,888
Weighted average number of common shares outstanding basic	**133,732**	136,143	128,097	114,672	106,078
Weighted average number of common shares outstanding diluted	**133,732**	136,143	128,097	114,672	106,078
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**147,981**	150,141	145,842	136,975	127,838
Per share basic and diluted:					
Loss from continuing operations available to common stockholders, net of minority interests	**$ (0.32)**	$ (0.11)	$ (0.14)	$ (0.33)	$ (0.53)
Income from discontinued operations, net of minority interests	**1.17**	1.14	0.70	0.55	0.77
Net income available to common stockholders	**0.85**	1.03	0.56	0.22	0.24
Common distributions declared	**1.25**	1.20	1.17	1.14	1.11
Balance Sheet Data					
Real estate owned, at carrying value	**$ 5,820,122**	$ 5,512,424	$ 5,243,296	$ 4,351,551	$ 3,967,483
Accumulated depreciation	**1,253,727**	1,123,829	1,007,887	896,630	748,733
Total real estate owned, net of accumulated depreciation	**4,566,395**	4,388,595	4,235,409	3,454,921	3,218,750
Total assets	**4,675,875**	4,541,593	4,332,001	3,543,643	3,276,136

Secured debt		**1,182,919**		1,116,259		1,197,924		1,018,028		1,015,740
Unsecured debt		**2,155,866**		2,043,518		1,682,058		1,114,009		1,041,900
Total debt		**3,338,785**		3,159,777		2,879,982		2,132,037		2,057,640
Stockholders equity		**1,055,255**		1,107,724		1,195,451		1,163,436		1,001,271
Number of common shares outstanding		**135,029**		134,012		136,430		127,295		106,605
Other Data										
Cash Flow Data										
Cash provided by operating activities	**$**	**229,613**	$	248,186	$	251,747	$	234,945	$	229,001
Cash used in investing activities		**(149,973)**		(219,017)		(595,966)		(304,217)		(67,363)
Cash (used in)/provided by financing activities		**(93,040)**		(21,530)		347,299		70,944		(163,127)
Funds from Operations(b)										
Funds from operations basic	**$**	**244,471**	$	238,254	$	211,670	$	193,750	$	153,016
Funds from operations diluted		**248,197**		241,980		219,557		208,431		168,795
Apartment Homes Owned										
Total apartment homes owned at December 31		**70,339**		74,875		78,855		76,244		74,480
Weighted average number of apartment homes owned during the year		**73,731**		76,069		76,873		74,550		76,567

(a) Reclassified to conform to current year presentation in accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as described in Note 3 to the consolidated financial statements.

(b) Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust s definition issued in April 2002. We consider FFO in evaluating property acquisitions and our operating performance and believe that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. For 2005, FFO includes $2.5 million of hurricane related insurance recoveries. For 2004, FFO includes a charge of $5.5 million to cover hurricane related expenses. For the years ended December 31, 2004 and 2003, distributions to preferred stockholders exclude $5.7 million and $19.3 million, respectively, related to premiums on preferred stock conversions.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such statements included in this Report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

Business Overview

We are a real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this Report to we, us, our, the company, or UDR refer collectively to United Dominion Realty Trust, Inc. and its subsidiaries.

At December 31, 2006, our portfolio included 242 communities with 70,339 apartment homes nationwide. The following table summarizes our market information by major geographic markets (includes real estate held for disposition, real estate under development, and land, but excludes commercial properties):

	As of December 31, 2006				Year Ended December 31, 2006	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Average Physical Occupancy	Total Income per Occupied Home(a)
WESTERN REGION						
Orange Co., CA	13	4,067	11.8%	$ 684,460	94.9%	$ 1,435
San Francisco, CA	10	2,425	7.7%	445,360	96.8%	1,543
Los Angeles, CA	6	1,210	3.4%	197,287	94.0%	1,412
San Diego, CA	5	1,123	2.8%	162,878	94.1%	1,241
Inland Empire, CA	4	1,282	2.7%	156,495	91.4%	1,033
Monterey Peninsula, CA	7	1,568	2.5%	144,133	89.8%	955
Seattle, WA	7	1,466	2.3%	130,875	96.4%	921
Portland, OR	5	1,365	1.5%	86,644	94.5%	745
Sacramento, CA	2	914	1.1%	64,563	92.7%	869
MID-ATLANTIC REGION						
Metropolitan DC	8	2,469	4.3%	249,270	95.9%	1,208
Raleigh, NC	11	3,663	4.0%	229,947	92.8%	695
Baltimore, MD	10	2,118	3.0%	176,424	95.9%	1,054
Richmond, VA	9	2,636	3.0%	174,696	95.5%	864
Wilmington, NC	6	1,868	1.8%	103,893	95.2%	755
Charlotte, NC	6	1,226	1.5%	88,685	94.3%	739
Norfolk, VA	6	1,438	1.3%	74,475	95.4%	913
Other Mid-Atlantic	13	2,817	2.5%	145,972	95.0%	861
SOUTHEASTERN REGION						
Tampa, FL	12	4,138	4.7%	273,531	94.1%	929
Orlando, FL	12	3,476	3.8%	219,802	93.1%	900
Nashville, TN	10	2,966	3.2%	187,754	95.1%	747
Jacksonville, FL	4	1,557	1.9%	110,344	94.0%	845
Atlanta, GA	6	1,426	1.5%	84,779	95.4%	701
Other Florida	8	2,400	2.8%	164,164	91.6%	918
Other Southeastern	7	1,752	1.4%	79,467	95.2%	644
SOUTHWESTERN REGION						
Houston, TX	16	5,447	4.6%	265,438	94.4%	677
Dallas, TX	6	2,684	3.4%	199,570	94.2%	811
Arlington, TX	6	1,828	1.7%	95,916	94.5%	679
Phoenix, AZ	4	1,234	1.6%	92,293	93.7%	905
Austin, TX	5	1,425	1.5%	87,073	96.4%	726
Denver, CO	2	884	1.2%	70,425	91.9%	748
Other Southwestern	6	2,469	2.6%	149,892	95.7%	739
MIDWESTERN REGION						
Columbus, OH	6	2,530	2.9%	165,785	93.5%	734

Other Midwestern	3	444	0.4%	24,890	91.4%	763
Real Estate Under Development	1	24	1.1%	63,828		
Land			2.5%	144,633		
Total	242	70,339	100.0%	$ 5,795,641	94.3%	$ 899

(a) Total Income per Occupied Home represents total revenues per weighted average number of apartment homes occupied.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale or maturity of existing assets, or by the acquisition of additional funds through capital management. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes. We routinely use our unsecured bank credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit arrangements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, the repayment of financing on development activities, and potential property acquisitions, through long-term secured and unsecured borrowings, the disposition of properties, and the issuance of additional debt or equity securities. We believe that our net cash provided by operations will continue to be adequate to meet both operating requirements and the payment of dividends by the company in accordance with REIT requirements in both the short- and long-term. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations.

We have a shelf registration statement filed with the Securities and Exchange Commission which provides for the issuance of an indeterminate amount of common stock, preferred stock, debt securities, warrants, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

Future Capital Needs

Future development expenditures are expected to be funded with proceeds from the sale of property, with construction loans, through joint ventures and, to a lesser extent, with cash flows provided by operating activities. Acquisition activity in strategic markets is expected to be largely financed through the issuance of equity and debt securities, the issuance of operating partnership units, the assumption or placement of secured and/or unsecured debt and by the reinvestment of proceeds from the sale of properties.

During 2007, we have approximately $81.7 million of secured debt and $167.3 million of unsecured debt maturing and we anticipate repaying that debt with proceeds from borrowings under our secured or unsecured credit facilities, the issuance of new unsecured debt securities or equity or from disposition proceeds.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, and (3) real estate investment properties. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Capital Expenditures

In conformity with accounting principles generally accepted in the United States, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the

useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

During 2006, $215.7 million or $2,996 per home was spent 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 other non-revenue enhancing capital expenditures, which

aggregated $34.6 million or $480 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $144.1 million or $2,002 per home, and major renovations totaled $37.0 million or $514 per home for the year ended December 31, 2006.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties for the periods presented:

	Year Ended December 31, (dollars in thousands)			Year Ended December 31, (per home)		
	2006	**2005**	**% Change**	**2006**	**2005**	**% Change**
Turnover capital expenditures	**$ 14,214**	$ 17,916	(20.7)%	**$ 197**	$ 237	(16.9)%
Other recurring capital expenditures	**20,409**	20,928	(2.5)%	**283**	276	2.5%
Total recurring capital expenditures	**34,623**	38,844	(10.9)%	**480**	513	(6.4)%
Revenue enhancing improvements	**144,102**	98,592	46.2%	**2,002**	1,302	53.8%
Major renovations	**36,996**	18,686	98.0%	**514**	247	108.1%
Total capital improvements	**$ 215,721**	$ 156,122	38.2%	**$ 2,996**	$ 2,062	45.3%
Repair and maintenance	**43,498**	45,266	(3.9)%	**604**	598	1.0%
Total expenditures	**$ 259,219**	$ 201,388	28.7%	**$ 3,600**	$ 2,660	35.3%

Total capital improvements increased $59.6 million or $934 per home for the year ended December 31, 2006 compared to the same period in 2005. This increase was attributable to an additional $18.3 million of major renovations at certain of our properties. These renovations included the re-wiring and/or re-plumbing of an entire building as well as major structural changes and/or architectural revisions to existing buildings. The increase was also attributable to an additional $45.5 million being invested in revenue enhancing improvements. These increases were offset by a $4.2 million decrease in recurring capital expenditures. We will continue to selectively add revenue enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital. Recurring capital expenditures during 2007 are currently expected to be approximately $610 per home.

Impairment of Long-Lived Assets

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by the future operation and disposition of those assets are less than the net book value of those assets. Our cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair market value. Our estimates of fair market value represent our best estimate based upon industry trends and reference to market rates and transactions.

Real Estate Investment Properties

We purchase real estate investment properties from time to time and allocate the purchase price to various components, such as land, buildings, and intangibles related to in-place leases in accordance with FASB Statement No. 141, Business Combinations. The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present

value of all cash flows expected to be generated from the property including an initial lease-up period. We determine the fair value of in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In addition, we consider the cost of acquiring similar leases, the foregone rents associated with the lease-up period, and the carrying costs associated with the lease-up period. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining contractual lease period.

Statements of Cash Flow

The following discussion explains the changes in net cash provided by operating activities and net cash used in investing and financing activities that are presented in our Consolidated Statements of Cash Flows.

Operating Activities

For the year ended December 31, 2006, our net cash flow provided by operating activities was $229.6 million compared to $248.2 million for 2005. During 2006, the decrease in cash flow from operating activities resulted primarily from an $18.5 million increase in interest expense, a decrease of $17.1 million in other income due to a 2005 sale of a technology investment, an $11.4 million increase in operating assets and a $9.8 million decrease in operating liabilities in 2006 as compared to 2005. These decreases in cash flow from operating activities were partially offset by a $34.2 million increase in property operating results from our apartment community portfolio (see discussion under Apartment Community Operations), $5.1 million more in gains recognized from the sale of depreciable property and an unconsolidated joint venture in 2006 as compared to 2005, and an $8.5 million decrease in prepayment penalties from 2005.

Investing Activities

For the year ended December 31, 2006, net cash used in investing activities was $150.0 million compared to $219.0 million for 2005. Changes in the level of investing activities from period to period reflects our strategy as it relates to our acquisition, capital expenditure, development, and disposition programs, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail below.

Acquisitions

For the year ended December 31, 2006, we acquired eight apartment communities with 2,763 apartment homes for an aggregate consideration of $327.5 million and two parcels of land for $19.9 million. For 2005, we acquired eight apartment communities with 2,561 apartment homes for an aggregate consideration of $390.9 million and one parcel of land for $2.9 million. Our long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been expanding our interests in the fast growing Southern California, Florida, and Metropolitan Washington DC markets over the past three years. During 2007, we plan to continue to channel new investments into those markets we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including past performance, expected job growth, current and anticipated housing supply and demand and the ability to attract and support household formation.

Real Estate Under Development

Development activity is focused in core markets in which we have strong operations in place. For the year ended December 31, 2006, we invested approximately $101.8 million in development projects, an increase of $52.5 million from our 2005 level of $49.3 million.

Table of Contents

The following wholly owned projects were under development as of December 31, 2006:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
2000 Post Phase III San Francisco, CA	24	24	$ 10,254	$ 11,000	$ 458,300	1Q07
Villas at Ridgeview Townhomes Plano, TX	48		7,022	10,000	208,300	3Q07
Ridgeview Apartments Plano, TX	202		8,296	18,000	89,100	3Q07
Northwest Houston Phase I Houston, TX	320		4,421	22,000	68,800	2Q08
Lincoln Towne Square Phase II Plano, TX	302		4,384	26,000	86,100	3Q08
	896	24	$ 34,377	$ 87,000	$ 97,100	

In addition, we owned five parcels of land held for future development aggregating $35.4 million at December 31, 2006.

Development Joint Ventures

In June 2006, we completed the formation of a development joint venture that will invest approximately $138 million to develop one apartment community with 298 apartment homes in Marina del Rey, California. UDR is the financial partner and is responsible for funding the costs of development and receives a preferred return from 7% to 8.5% before our partner receives a 50% participation. Our initial investment was $27.5 million.

In July 2006, we closed on a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the $135 million project that involves building a 400 home high rise apartment building with ground floor retail. Our initial investment was $5.7 million.

In November 2006, we closed on a joint venture to develop a site close to Bellevue Plaza in the central business district of Bellevue, Washington. This project will include the development of 271 apartment homes. Construction began in the fourth quarter of 2006 and is scheduled for completion in 2008. At closing, we owned 49% of the $97 million project. Our initial investment was $10.0 million.

Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, these ventures have been consolidated into UDR s financial statements. Our joint venture partners are the managing partners as well as the developers, general contractors, and property managers.

The following consolidated joint venture projects were under development as of December 31, 2006:

	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		$ 76,601	$ 138,000	$ 463,100	2Q08
Ashwood Commons Bellevue, WA	271		23,660	97,000	357,900	4Q08
Bellevue Plaza Bellevue, WA	400		34,220	135,000	270,000	4Q09
	969		$ 134,481	$ 370,000	$ 381,800	

Disposition of Investments

For the year ended December 31, 2006, UDR sold 24 communities with 7,653 apartment homes for a gross consideration of $444.9 million. In addition, we sold 384 condominiums from four communities with a total of 612 condominiums for a gross consideration of $72.1 million. We recognized after-tax gains for financial reporting purposes of $148.6 million on these sales. Proceeds from the sales were used primarily to reduce debt.

For the year ended December 31, 2005, UDR sold 22 communities with 6,352 apartment homes and 240 condominiums from five communities with a total of 648 condominiums for a gross consideration of $456.3 million. In addition, we sold our investment in an unconsolidated joint venture for $39.2 million and one parcel of land for $0.9 million. We recognized gains for financial reporting purposes of $143.5 million on these sales. Proceeds from the sales were used primarily to reduce debt and acquire additional communities. In conjunction with the sale of ten communities in July 2005, we received short-term notes for $124.7 million that bear interest at 6.75% and had maturities ranging from September 2005 to July 2006. As of December 31, 2006, all of the notes receivable had matured and had been repaid. We recognized previously deferred gains for financial reporting purposes of $6.4 million for the year ended December 31, 2006.

During 2007, we plan to continue to pursue our strategy of exiting markets where long-term growth prospects are limited and redeploying capital into those markets we believe will provide the best investment returns. We intend to use the proceeds from 2007 dispositions to reduce debt, acquire communities, and fund development activity.

Financing Activities

Net cash used in financing activities during 2006 was $93.0 million compared to $21.5 million in 2005. As part of the plan to improve our balance sheet, we utilized proceeds from dispositions, equity and debt offerings, and refinancings to extend maturities, pay down existing debt, and purchase new properties.

The following is a summary of our financing activities for the year ended December 31, 2006:

Repaid $70.3 million of secured debt and $138.8 million of unsecured debt.

Authorized a new 10 million share repurchase program in February 2006. This program replaces our previous 11 million share repurchase program under which we repurchased approximately 10 million shares.

Sold $125 million aggregate principal amount of 6.05% senior unsecured notes due June 2013 in June 2006 under our medium-term note program. The net proceeds of approximately $124 million were used for debt repayment.

Sold $250 million aggregate principal amount of 3.625% convertible senior unsecured notes due 2011 in October 2006. The net proceeds of approximately $245 million were used for the repayment of indebtedness under our revolving credit facility, the cost of a capped call transaction, and for other general corporate purposes. The capped call instrument effectively increased the conversion premium to 40%.

Credit Facilities

We have four secured revolving credit facilities with Fannie Mae with an aggregate commitment of $860 million. As of December 31, 2006, $691.8 million was outstanding under the Fannie Mae credit facilities leaving $168.2 million of unused capacity. The Fannie Mae credit facilities are for an initial term of ten years, bear interest at floating and fixed rates, and can be extended for an additional five years at our discretion. We have $399.4 million of the funded

balance fixed at a weighted average interest rate of 6.1% and the remaining balance on these facilities is currently at a weighted average variable rate of 5.9%.

We have a $500 million unsecured revolving credit facility that matures in May 2008 and, at our option, can be extended an additional year. We have the right to increase the credit facility to $750 million under

certain circumstances. Based on our current credit ratings, the credit facility bears interest at a rate equal to LIBOR plus 57.5 basis points. Under a competitive bid feature, and for so long as we maintain an Investment Grade Rating, we have the right to bid out 100% of the commitment amount. As of December 31, 2006, $87.2 million was outstanding under the credit facility leaving $412.8 million of unused capacity.

The Fannie Mae credit facility and the bank revolving credit facility are subject to customary financial covenants and limitations.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. A large portion of our market risk is exposure to short-term interest rates from variable rate borrowings outstanding under our Fannie Mae credit facility and our bank revolving credit facility, which totaled $292.5 million and $87.2 million, respectively, at December 31, 2006. The impact on our financial statements of refinancing fixed rate debt that matured during 2006 was immaterial.

If market interest rates for variable rate debt average 100 basis points more in 2007 than they did during 2006, our interest expense would increase, and income before taxes would decrease by $4.9 million. Comparatively, if market interest rates for variable rate debt had averaged 100 basis points more in 2006 than in 2005, our interest expense would have increased, and net income would have decreased by $6.0 million. If market rates for fixed rate debt were 100 basis points higher at December 31, 2006, the fair value of fixed rate debt would have decreased from $2.7 billion to $2.6 billion. If market interest rates for fixed rate debt were 100 basis points lower at December 31, 2006, the fair value of fixed rate debt would have increased from $2.7 billion to $2.9 billion.

These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost. These analyses do not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

Funds from Operations

Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO for all periods presented in accordance with the recommendations set forth by the National Association of Real Estate Investment Trust s (NAREIT) April 1, 2002 White Paper. We consider FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

Historical cost accounting for real estate assets in accordance with generally accepted accounting principles implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the

presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, plus

depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

The following table outlines our FFO calculation and reconciliation to generally accepted accounting principles for the three years ended December 31, 2006 *(dollars in thousands):*

	2006	2005	2004
Net income	**$ 128,605**	$ 155,166	$ 97,152
Adjustments:			
Distributions to preferred stockholders	**(15,370)**	(15,370)	(19,531)
Real estate depreciation and amortization	**236,523**	193,517	147,133
Minority interests of unitholders in operating partnership	**(2,722)**	(918)	(1,230)
Real estate depreciation related to unconsolidated entities		311	279
Discontinued Operations:			
Real estate depreciation	**7,366**	18,907	33,495
Minority interests of unitholders in operating partnership	**10,082**	9,648	6,073
Net gain on the sale of land and depreciable property	**(148,614)**	(139,724)	(52,903)
Net incremental gains on the sale of condominium homes and assets developed for sale	**28,601**	16,717	1,202
Funds from operations basic	**$ 244,471**	$ 238,254	$ 211,670
Distributions to preferred stockholders Series D and E (Convertible)	**3,726**	3,726	7,887
Funds from operations diluted	**$ 248,197**	$ 241,980	$ 219,557
Weighted average number of common shares and OP Units outstanding basic	**142,426**	144,689	136,852
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**147,981**	150,141	145,842

In the computation of diluted FFO, OP Units, out-performance partnership shares, and the shares of Series D Cumulative Convertible Redeemable Preferred Stock and Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count. For the year ended December 31, 2004, distributions to preferred stockholders exclude $5.7 million related to premiums on preferred stock conversions.

Net incremental gains on the sale of condominium homes and the net incremental gain on the disposition of real estate investments developed for sale are defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with gains/losses on the sale of condominium homes and gains/losses on the disposition of real estate investments developed for sale to be a meaningful supplemental measure

of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

Table of Contents

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three years ended December 31, 2006 *(shares in thousands):*

	2006	2005	2004
Weighted average number of common shares and OP units outstanding basic	**142,426**	144,689	136,852
Weighted average number of OP units outstanding	**(8,694)**	(8,546)	(8,755)
Weighted average number of common shares outstanding basic per the Consolidated Statements of Operations	**133,732**	136,143	128,097
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**147,981**	150,141	145,842
Weighted average number of OP units outstanding	**(8,694)**	(8,546)	(8,755)
Weighted average number of incremental shares from assumed conversion of stock options	**(966)**	(870)	(897)
Weighted average number of incremental shares from assumed conversion of $250 million convertible debt	**(68)**		
Weighted average number of Series A OPPSs outstanding	**(1,717)**	(1,778)	(1,791)
Weighted average number of Series D preferred stock outstanding			(2,892)
Weighted average number of Series E preferred stock outstanding	**(2,804)**	(2,804)	(3,410)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**133,732**	136,143	128,097

FFO also does not represent cash generated from operating activities in accordance with generally accepted accounting principles, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by generally accepted accounting principles, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs. A presentation of cash flow metrics based on generally accepted accounting principles is as follows *(dollars in thousands):*

	2006	2005	2004
Net cash provided by operating activities	**$ 229,613**	$ 248,186	$ 251,747
Net cash used in investing activities	**(149,973)**	(219,017)	(595,966)
Net cash (used in)/provided by financing activities	**(93,040)**	(21,530)	347,299

Results of Operations

The following discussion includes the results of both continuing and discontinued operations for the periods presented.

Net Income Available to Common Stockholders

2006-vs.-2005

Net income available to common stockholders was $113.2 million ($0.85 per diluted share) for the year ended December 31, 2006, compared to $139.8 million ($1.03 per diluted share) for the year ended December 31, 2005, representing a decrease of $26.6 million ($0.18 per diluted share). The decrease for the year ended December 31, 2006, when compared to the same period in 2005, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

$31.7 million more in depreciation and amortization expense in 2006,

$18.5 million more in interest expense in 2006,

Table of Contents

$17.1 million less in non-property income in 2006, and

$6.4 million more in general and administrative expense in 2006.

These decreases in net income were partially offset by $5.1 million more in gains recognized from the sale of depreciable property and an unconsolidated joint venture, an $8.5 million decrease in losses on early debt retirement, and a $34.2 million increase in apartment community operating results in 2006 when compared to 2005.

2005-vs.-2004

Net income available to common stockholders was $139.8 million ($1.03 per diluted share) for the year ended December 31, 2005, compared to $71.9 million ($0.56 per diluted share) for the year ended December 31, 2004, representing an increase of $67.9 million ($0.47 per diluted share). The increase in net income for the year ended December 31, 2005, when compared to the same period in 2004, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

$90.6 million more in gains recognized from the sale of depreciable property and an unconsolidated joint venture in 2005,

a $32.6 million increase in apartment community operating results in 2005,

an $18.1 million increase in non-property income in 2005,

a $5.7 million decrease in premiums paid on preferred stock conversions in 2005,

a $5.5 million charge recorded for hurricane related expenses in 2004,

$4.2 million less in preferred stock distributions in 2005, and

$2.5 million in hurricane related insurance recoveries in 2005.

These increases in net income were partially offset by a $38.7 million increase in interest expense, a $31.8 million increase in real estate depreciation and amortization expense, an $8.5 million increase in losses on early debt retirement, and a $5.5 million increase in general and administrative expense in 2005 when compared to 2004.

Apartment Community Operations

Our net income is primarily generated from the operation of our apartment communities. The following table summarizes the operating performance of our total apartment portfolio for each of the periods presented *(dollars in thousands):*

	Year Ended December 31,			Year Ended December 31,		
	2006	**2005**	**% Change**	**2005**	**2004**	**% Change**
Property rental income	**$ 736,329**	$ 700,344	5.1%	$ 700,344	$ 649,952	7.8%
	(271,297)	(269,486)	0.7%	(269,486)	(251,697)	7.1%

Property operating expense*						
Property operating income	**$ 465,032**	$ 430,858	7.9%	$ 430,858	$ 398,255	8.2%
Weighted average number of homes	**73,731**	76,069	(3.1)%	76,069	76,873	(1.0)%
Physical occupancy**	**94.3%**	94.1%	0.2%	94.1%	93.6%	0.5%

* Excludes depreciation, amortization, and property management expenses. Also excludes $5.5 million of hurricane related expenses in 2004 and $2.5 million of hurricane related insurance recoveries in 2005.

** Based upon weighted average stabilized units.

The following table is our reconciliation of property operating income to net income as reflected on the Consolidated Statements of Operations for the periods presented *(dollars in thousands):*

	2006	2005	2004
Property operating income	**$ 465,032**	$ 430,858	$ 398,255
Commercial operating (loss)/income	**(350)**	1,997	427
Non-property income	**3,590**	20,672	2,606
Depreciation and amortization	**(246,934)**	(215,192)	(184,087)
Interest	**(181,183)**	(162,723)	(124,001)
General and administrative and property management	**(51,463)**	(44,128)	(37,197)
Other operating expenses	**(1,238)**	(1,178)	(1,226)
Net gain on the sale of land and depreciable property	**148,614**	139,724	52,903
Loss on early debt retirement		(8,483)	
Hurricane related expenses			(5,503)
Hurricane related insurance recoveries		2,457	
Minority interests	**(7,463)**	(8,838)	(5,025)
Net income per the Consolidated Statements of Operations	**$ 128,605**	$ 155,166	$ 97,152

2006-vs.-2005

Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to December 31, 2005 and held on December 31, 2006, which consisted of 60,062 apartment homes) provided 82% of our property operating income for the year ended December 31, 2006.

For the year ended December 31, 2006, same community property operating income increased 8.6% or $30.4 million compared to 2005. The increase in property operating income was primarily attributable to a 6.0% or $34.2 million increase in revenues from rental and other income that was offset by a 1.8% or $3.9 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.9% or $28.4 million increase in rental rates, a 17.6% or $2.2 million decrease in concession expense, and a 12.5% or $5.0 million increase in utility reimbursement income and fee income. Physical occupancy increased 0.1% to 94.7%.

The increase in property operating expenses was primarily driven by a 15.8% or $1.6 million increase in insurance costs, a 4.4% or $1.5 million increase in utility costs, a 2.8% or $1.5 million increase in personnel costs, a 1.1% or $0.4 million increase in repair and maintenance expenses, and a 0.5% or $0.3 million increase in real estate taxes. These increases in operating expenses were partially offset by a 6.0% or $1.2 million decrease in administrative and marketing expenses.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property operating income divided by property rental income) increased 1.5% to 63.5%.

Non-Mature Communities

The remaining 18% of our property operating income during 2006 was generated from communities that we classify as non-mature communities (primarily those communities acquired or developed in 2005 and 2006, sold properties, and those properties classified as real estate held for disposition). The 16 communities with 5,324 apartment homes that we acquired in 2005 and 2006 provided $32.8 million of property operating income. The 46 communities with 14,005 homes and the 624 condominiums from five communities that we sold in 2005 and 2006 provided $18.3 million of property operating income. In addition, our development communities, which included 438 apartment homes completed in 2005 and 2006, provided $2.2 million of operating income and the two communities with 475 apartment homes, one community with 320

condominiums, and the one commercial unit classified as real estate held for disposition provided $5.5 million of property operating income. Other non-mature communities provided $23.1 million of property operating income for the year ended December 31, 2006.

2005-vs.-2004

Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to September 30, 2004 and held on December 31, 2005, which consisted of 58,840 apartment homes) provided 73% of our property operating income for the year ended December 31, 2005.

For the year ended December 31, 2005, same community property operating income increased 3.4% or $10.3 million compared to 2004. The increase in property operating income was primarily attributable to a 3.8% or $18.6 million increase in revenues from rental and other income that was partially offset by a 4.4% or $8.3 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 2.0% or $10.3 million increase in rental rates, a 20.2% or $2.9 million decrease in concession expense, a 7.5% or $2.6 million increase in utility reimbursement income and fee income, a 7.8% or $2.5 million decrease in vacancy loss, and a 15.6% or $0.4 million decrease in bad debt expense. Physical occupancy increased 0.6% to 94.5%.

The increase in property operating expenses was primarily driven by a 4.3% or $2.0 million increase in real estate taxes, a 3.8% or $1.9 million increase in personnel costs, a 3.8% or $1.1 million increase in utilities expense, a 2.9% or $0.9 million increase in repair and maintenance costs, a 4.7% or $0.8 million increase in administrative and marketing costs, a 46.7% or $0.7 million increase in incentive compensation, and a 5.4% or $0.5 million increase in insurance costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin decreased 0.3% to 61.5%.

Non-Mature Communities

The remaining 27% of our property operating income during 2005 was generated from communities that we classify as non-mature communities (primarily those communities acquired or developed in 2003, 2004 and 2005, sold properties, and those properties classified as real estate held for disposition). The 41 communities with 12,458 apartment homes that we acquired in the fourth quarter of 2003, and in 2004 and 2005, provided $87.5 million of property operating income. The 22 communities with 6,352 apartment homes and 240 condominiums sold during 2005 provided $10.0 million of property operating income. In addition, our development communities, which included 244 apartment homes constructed since January 1, 2003, provided $0.7 million of property operating income during 2005, the four communities with a total of 384 condominiums classified as real estate held for disposition provided $0.3 million of property operating income, and other non-mature communities which includes homes that are undergoing major rehabilitation, provided $17.5 million of property operating income for the year ended December 31, 2005.

Real Estate Depreciation and Amortization

For the year ended December 31, 2006, real estate depreciation and amortization on both continuing and discontinued operations increased $31.7 million or 14.8% compared to 2005, primarily due to the significant increase in per home acquisition cost compared to the existing portfolio and other capital expenditures.

For the year ended December 31, 2005, real estate depreciation and amortization on both continuing and discontinued operations increased $31.8 million or 17.6% compared to 2004, primarily due to the significant increase in the per home acquisition cost compared to the existing portfolio and other capital expenditures.

Interest Expense

For the year ended December 31, 2006, interest expense on both continuing and discontinued operations increased $18.5 million or 11.3% from 2005 primarily due to the issuance of debt and higher interest rates. For the year ended December 31, 2006, the weighted average amount of debt outstanding increased 11.7% or $350.4 million compared to 2005 and the weighted average interest rate increased from 5.3% to 5.4% during 2006. The weighted average amount of debt outstanding during 2006 is higher than 2005 as acquisition costs in 2005 and in 2006 have been funded, in most part, by the issuance of debt. The increase in the weighted average interest rate during 2006 reflects short-term bank borrowings and variable rate debt that had higher interest rates when compared to the prior year that were partially offset by the retirement of higher coupon debt with lower coupon debt.

For the year ended December 31, 2005, interest expense on both continuing and discontinued operations increased $47.2 million or 38.1% from 2004 primarily due to the issuance of debt and $8.5 million in prepayment penalties. For the year ended December 31, 2005, the weighted average amount of debt outstanding increased 30.7% or $697.4 million compared to 2004 and the weighted average interest rate increased from 5.0% to 5.3% during 2005. The weighted average amount of debt outstanding during 2005 is higher than 2004 as acquisition costs in 2005 have been funded, in most part, by the issuance of debt. The increase in the weighted average interest rate during 2005 reflects short-term bank borrowings and variable rate debt that had higher interest rates when compared to the prior year.

General and Administrative

For the year ended December 31, 2006, general and administrative expenses increased $6.4 million or 25.7% over 2005 due to a number of factors, including increases in incentive compensation, professional fees, relocation costs, and an operating lease on an airplane.

For the year ended December 31, 2005, general and administrative expenses increased $5.5 million or 28.5% over 2004 primarily as a result of an increase in personnel and incentive compensation costs, an operating lease on an airplane, compliance costs and an operations improvement initiative.

Hurricane Related Expenses and Hurricane Related Insurance Recoveries

In 2005, $2.5 million of hurricane related insurance recoveries were recorded. In 2004, we recognized a $5.5 million charge to cover expenses associated with the damage in Florida caused by hurricanes Charley, Frances, and Jeanne. UDR reported that 25 of our 34 Florida communities were affected by the hurricanes.

Gains on the Sale of Land, Depreciable Property and an Unconsolidated Joint Venture

For the years ended December 31, 2006 and 2005, we recognized after-tax gains for financial reporting purposes of $148.6 million and $143.5 million, respectively. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period as well as the extent of gains related to specific properties sold.

Premium on Preferred Stock Conversions

In the fourth quarter of 2004, we exercised our right to redeem 2 million shares of our Series D Cumulative Convertible Redeemable Preferred Stock. Upon receipt of our redemption notice, the shares to be redeemed were converted by the holder into 3,076,769 shares of common stock at a price of $16.25 per share. As a result, we

recognized a $5.7 million premium on preferred stock conversions.

The premium amount recognized to convert these shares represents the cumulative accretion to date between the conversion value of the preferred stock and the value at which it was recorded at the time of issuance.

---

eBay Purchase of Rent.com

On December 16, 2004, eBay announced that it had agreed to acquire privately held Rent.com, a leading Internet listing web site in the apartment and rental housing industry, for approximately $415 million plus acquisition costs, net of Rent.com s cash on hand. On February 23, 2005, eBay announced that it had completed the acquisition. We owned shares in Rent.com, and as a result of the transaction, we recorded a one-time pre-tax gain of $12.3 million on the sale. In August 2006, we received an additional $0.8 million representing our portion of the escrow balance.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. Substantially all of our leases are for a term of one year or less which generally minimizes our risk from the adverse effects of inflation.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2006 *(dollars in thousands):*

	Payments Due by Period				
Contractual Obligations	**Total**	**2007**	**2008-2009**	**2010-2011**	**Thereafter**
Long-Term Debt Obligations	$ 3,338,785	$ 248,985	$ 695,892	$ 946,462	$ 1,447,446
Capital Lease Obligations					
Operating Lease Obligations	32,882	2,770	5,460	3,681	20,971
Purchase Obligations					
Other Long-Term Liabilities Reflected on the Balance Sheet Under GAAP					

During 2006, we incurred interest costs of $181.2 million, of which $5.2 million was capitalized.

Factors Affecting Our Business and Prospects

There are many factors that affect our business and the results of our operations, some of which are beyond our control. These factors include:

unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels, rental rates and purchase or sale prices of apartment communities,

the failure of acquisitions to achieve anticipated results,

possible difficulty in selling apartment communities,

the timing and closing of planned dispositions under agreement,

competitive factors that may limit our ability to lease apartment homes or increase or maintain rents,

insufficient cash flow that could affect our debt financing and create refinancing risk,

failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders,

development and construction risks that may impact our profitability,

potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs,

delays in completing developments and lease-ups on schedule,

our failure to succeed in new markets,

changing interest rates, which could increase interest costs and affect the market price of our securities,

potential liability for environmental contamination, which could result in substantial costs, and

the imposition of federal taxes if we fail to qualify as a REIT in any taxable year.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is included in and incorporated by reference from Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and related financial information required to be filed are attached to this Report. Reference is made to page 44 of this Report for the Index to Consolidated Financial Statements and Schedule.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2006, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective under circumstances where our disclosure controls and procedures should reasonably be expected to operate effectively.

Management s Report on Internal Control over Financial Reporting

UDR s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, UDR s Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO).

Based on UDR s evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2006. Management s assessment of the effectiveness of our internal control over

financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

Our Chief Executive Officer and our Chief Financial Officer concluded that during the quarter ended December 31, 2006, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information set forth under the headings Election of Directors, Corporate Governance Matters, Audit Committee Report, Corporate Governance Matters-Aud Committee Financial Expert, Corporate Governance Matters-Identification and Selection of Nominees for Directors, Corporate Governance Matters-Board of Directors and Committee Meetings and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007.

Information required by this item regarding our executive officers is included in Part I of this Report in the section entitled Business-Executive Officers of the Company.

We have a code of ethics for senior financial officers that applies to our principal executive officer, all members of our finance staff, including the principal financial officer, the principal accounting officer, the treasurer and the controller, our director of investor relations, our corporate secretary, and all other company officers. We also have a code of business conduct and ethics that applies to all of our employees. Information regarding our codes is available on our website, *www.udrt.com*, and is incorporated by reference to the information set forth under the heading Corporate Governance Matters in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or a waiver from, a provision of our codes by posting such amendment or waiver on our website.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information set forth under the headings Security Ownership of Certain Beneficial Owners and Management, Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation, Executive Compensation, Compensation of Directors and Compensation Committee Report in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information set forth under the headings Security Ownership of Certain Beneficial Owners and Management, Executive Compensation and Equity

Compensation Plan Information in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007.

Table of Contents

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information set forth under the heading Security Ownership of Certain Beneficial Owners and Management, Corporate Governance Matters-Corporate Governance Overview, Corporate Governance Matters-Director Independence, Corporate Governance Matters-Independence of Audit, Compensation and Governance Committees, and Executive Compensation in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information set forth under the headings Audit Fees and Pre-Approval Policies and Procedures in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 8, 2007.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. *Financial Statements.* See Index to Consolidated Financial Statements and Schedule on page 44 of this Report.

2. *Financial Statement Schedule.* See Index to Consolidated Financial Statements and Schedule on page 44 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.

3. *Exhibits.* The exhibits filed with this Report are set forth in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED DOMINION REALTY TRUST, INC.

Date: March 1, 2007

By: /s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on March 1, 2007 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer, President, and Director

/s/ Michael A. Ernst

Michael A. Ernst
Executive Vice President and Chief Financial Officer

/s/ David L. Messenger

David L. Messenger
Senior Vice President and Chief Accounting Officer

/s/ Robert C. Larson

Robert C. Larson
Chairman of the Board

/s/ James D. Klingbeil

James D. Klingbeil
Vice Chairman of the Board

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director

/s/ Eric J. Foss

/s/ Jon A. Grove

Jon A. Grove
Director

/s/ Thomas R. Oliver

Thomas R. Oliver
Director

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Director

/s/ Mark J. Sandler

Mark J. Sandler
Director

/s/ Thomas C. Wajnert

Thomas C. Wajnert
Director

Eric J. Foss
Director

/s/ Robert P. Freeman

Robert P. Freeman
Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

UNITED DOMINION REALTY TRUST, INC.

	Page
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	45
FINANCIAL STATEMENTS FILED AS PART OF THIS REPORT	
Report of Independent Registered Public Accounting Firm	46
Consolidated Balance Sheets at December 31, 2006 and 2005	47
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2006	48
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006	49
Consolidated Statements of Stockholders Equity for each of the three years in the period ended December 31, 2006	50
Notes to Consolidated Financial Statements	52
SCHEDULE FILED AS PART OF THIS REPORT	
Schedule III Summary of Real Estate Owned	75

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders
United Dominion Realty Trust, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting included at Item 9A, that United Dominion Realty Trust, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006 of United Dominion Realty Trust, Inc. and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia
February 23, 2007

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
United Dominion Realty Trust, Inc.

We have audited the accompanying consolidated balance sheets of United Dominion Realty Trust, Inc. (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Dominion Realty Trust, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia
February 23, 2007

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)

	December 31, 2006	December 31, 2005
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 5,559,156**	$ 4,931,085
Less: accumulated depreciation	**(1,238,392)**	(1,000,109)
	4,320,764	3,930,976
Real estate under development (net of accumulated depreciation of $527 and $140)	**203,786**	90,769
Real estate held for disposition (net of accumulated depreciation of $14,808 and $123,580)	**41,845**	366,850
Total real estate owned, net of accumulated depreciation	**4,566,395**	4,388,595
Cash and cash equivalents	**2,143**	15,543
Restricted cash	**5,602**	4,583
Deferred financing costs, net	**35,160**	31,036
Notes receivable	**10,500**	64,805
Other assets	**43,123**	33,727
Other assets real estate held for disposition	**12,952**	3,304
Total assets	**$ 4,675,875**	$ 4,541,593
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	**$ 1,182,919**	$ 1,062,526
Secured debt real estate held for disposition		53,733
Unsecured debt	**2,155,866**	2,043,518
Real estate taxes payable	**25,557**	22,413
Accrued interest payable	**34,347**	26,672
Security deposits and prepaid rent	**25,249**	24,046
Distributions payable	**46,936**	45,313
Accounts payable, accrued expenses, and other liabilities	**54,878**	53,162
Other liabilities real estate held for disposition	**6,035**	18,667
Total liabilities	**3,531,787**	3,350,050
Minority interests	**88,833**	83,819
Stockholders equity:		
	135,400	135,400

Preferred stock, no par value; 50,000,000 shares authorized		
5,416,009 shares 8.60% Series B Cumulative Redeemable issued and outstanding (5,416,009 in 2005)		
2,803,812 shares 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 in 2005)	**46,571**	46,571
Common stock, $0.01 par value; 250,000,000 shares authorized, 135,029,126 shares issued and outstanding (134,012,053 in 2005)	**1,350**	1,340
Additional paid-in capital	**1,682,809**	1,680,115
Distributions in excess of net income	**(810,875)**	(755,702)
Total stockholders equity	**1,055,255**	1,107,724
Total liabilities and stockholders equity	**$ 4,675,875**	$ 4,541,593

See accompanying notes to consolidated financial statements.

47

UNITED DOMINION REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2006	**2005**	**2004**
REVENUES			
Rental income	**$ 694,473**	$ 621,904	$ 513,463
Non-property income:			
Sale of technology investment	**796**	12,306	
Sale of unconsolidated joint venture		3,823	
Other income	**2,789**	4,535	2,608
Total non-property income	**3,585**	20,664	2,608
Total revenues	**698,058**	642,568	516,071
EXPENSES			
Rental expenses:			
Real estate taxes and insurance	**83,527**	74,510	59,795
Personnel	**67,928**	62,674	52,937
Utilities	**39,821**	36,494	30,897
Repair and maintenance	**40,942**	36,595	37,829
Administrative and marketing	**21,348**	21,463	17,904
Property management	**20,265**	19,309	17,881
Other operating expenses	**1,238**	1,178	1,226
Real estate depreciation and amortization	**236,523**	193,517	147,133
Interest	**182,285**	162,773	122,024
General and administrative	**31,198**	24,819	19,316
Other depreciation and amortization	**3,009**	2,655	3,201
Loss on early debt retirement		6,662	
Total expenses	**728,084**	642,649	510,143
(Loss)/income before minority interests and discontinued operations	**(30,026)**	(81)	5,928
Minority interests of outside partnerships	**(103)**	(108)	(182)
Minority interests of unitholders in operating partnerships	**2,722**	918	1,230
(Loss)/income before discontinued operations, net of minority interests	**(27,407)**	729	6,976
Income from discontinued operations, net of minority interests	**156,012**	154,437	90,176
Net income	**128,605**	155,166	97,152
Distributions to preferred stockholders Series B	**(11,644)**	(11,644)	(11,644)

Distributions to preferred stockholders Series D (Convertible)			(3,473)
Distributions to preferred stockholders Series E (Convertible)	**(3,726)**	(3,726)	(4,414)
Premium on preferred stock conversions			(5,729)
Net income available to common stockholders	**$ 113,235**	$ 139,796	$ 71,892
Earnings per common share basic and diluted:			
Loss from continuing operations available to common stockholders, net of minority interests	**$ (0.32)**	$ (0.11)	$ (0.14)
Income from discontinued operations, net of minority interests	**$ 1.17**	$ 1.14	$ 0.70
Net income available to common stockholders	**$ 0.85**	$ 1.03	$ 0.56
Common distributions declared per share	**$ 1.25**	$ 1.20	$ 1.17
Weighted average number of common shares outstanding basic	**133,732**	136,143	128,097
Weighted average number of common shares outstanding diluted	**133,732**	136,143	128,097

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
Operating Activities			
Net income	**$ 128,605**	$ 155,166	$ 97,152
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**246,934**	215,192	184,088
Net gains on the sale of land and depreciable property	**(148,614)**	(139,724)	(52,903)
Cancellation of operating partnership units in connection with the sale of equity investment		(1,000)	
Gain on the sale of technology investment	**(796)**	(12,306)	
Gain on the sale of unconsolidated joint venture		(3,823)	
Distribution of earnings from unconsolidated joint venture		124	
Minority interests	**7,463**	8,838	5,025
Amortization of deferred financing costs and other	**6,063**	5,287	7,206
Amortization of deferred compensation		2,939	2,780
Prepayments on income taxes	**(6,288)**		
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	**(2,713)**	8,695	(1,769)
(Decrease)/increase in operating liabilities	**(1,041)**	8,798	10,168
Net cash provided by operating activities	**229,613**	248,186	251,747
Investing Activities			
Proceeds from the sale of real estate investments, net	**492,744**	308,753	190,105
Repayment of notes receivable	**59,805**	64,845	75,586
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(365,606)**	(413,744)	(755,966)
Development of real estate assets	**(101,849)**	(49,343)	(19,131)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(215,721)**	(156,122)	(82,390)
Capital expenditures non-real estate assets	**(3,465)**	(3,209)	(1,578)
Distributions to consolidated joint venture partners	**(6,823)**		
Proceeds from the sale of technology investment	**796**	12,306	
Purchase deposits on pending real estate acquisitions	**(4,354)**		
Issuance of notes receivable	**(5,500)**		
Distribution of capital from unconsolidated joint venture		458	
Decrease/(increase) in funds held in escrow from tax free exchanges pending the acquisition of real estate		17,039	(2,592)
Net cash used in investing activities	**(149,973)**	(219,017)	(595,966)

Financing Activities			
Proceeds from the issuance of secured debt	**78,860**	25,342	
Scheduled principal payments on secured debt	**(70,339)**	(8,611)	(36,814)
Non-scheduled principal payments on secured debt		(125,221)	(95,011)
Proceeds from the issuance of unsecured debt	**375,000**	499,983	475,775
Payments on unsecured debt	**(138,849)**	(70,860)	(46,585)
Net (repayment)/proceeds of revolving bank debt	**(123,600)**	(67,300)	140,200
Purchase of capped call equity instrument	**(12,588)**		
Payment of financing costs	**(10,284)**	(14,455)	(8,849)
Proceeds from the issuance of common stock	**5,303**	4,334	99,461
Proceeds from the repayment of officer loans			459
Proceeds from the issuance of performance shares	**400**	343	(50)
Purchase of minority interests owned by Series A LLC	**(2,059)**		
Purchase of minority interest from outside partners		(522)	
Conversion of operating partnership units to cash		(50)	
Distributions paid to minority interests	**(12,729)**	(12,900)	(13,553)
Distributions paid to preferred stockholders	**(15,370)**	(15,370)	(20,347)
Distributions paid to common stockholders	**(166,785)**	(163,001)	(147,387)
Repurchases of common and preferred stock		(73,242)	
Net cash (used in)/provided by financing activities	**(93,040)**	(21,530)	347,299
Net (decrease)/increase in cash and cash equivalents	**(13,400)**	7,639	3,080
Cash and cash equivalents, beginning of year	**15,543**	7,904	4,824
Cash and cash equivalents, end of year	**$ 2,143**	$ 15,543	$ 7,904
Supplemental Information:			
Interest paid during the period	**$ 174,871**	$ 160,367	$ 115,519
Non-cash transactions:			
Conversion of operating partnership minority interests to common stock (381,001 shares in 2006, 99,573 shares in 2005, 170,209 shares in 2004)	**7,988**	1,444	2,035
Conversion of minority interests in Series B, LLC		690	
Issuance of restricted stock awards	**2,754**	7,709	3,250
Issuance of operating partnership units in connection with acquisitions		7,653	
Cancellation of a note receivable with the acquisition of a property			8,000
Secured debt assumed with the acquisition of properties	**24,512**	26,825	311,714
Receipt of a note receivable in connection with sales of real estate investments		124,650	75,586
Deferred gain in connection with the sale of real estate investments		6,410	
Non-cash transactions associated with consolidated joint venture:			
Real estate assets acquired	**62,059**		
Secured debt assumed	**33,627**		
Operating liabilities assumed	**3,840**		

See accompanying notes to consolidated financial statements.

UNITED DOMINION REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	Deferred Compensation Unearned Restricted Stock	Notes Receivable from Officer	Accumulat Other Comprehen
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Income**	**Awards**	**Stockholders**	**Loss**
er 31,	10,841,226	$ 236,564	127,295,126	$ 127,295	$ 1,458,983	$ (651,497)	$ (5,588)	$ (459)	$ (1,862
come						97,152			
ive									
n l									1,862
come						97,152			1,862
on and			769,083	769	10,171				
on blic			4,497,000	4,497	86,804				
ority ders erships			170,209	170	1,865				
nts on om rs								459	
ium rsions		5,729				(5,729)			
0% ve mable	(2,000,000)	(50,000)	3,076,769	3,077	46,923				
0% ve .	(621,405)	(10,322)	621,405	622	9,700				

red						(152,203)	
						(11,644)	
						(3,473)	
						(4,414)	
SB					(5,588)		5,588
er 31,	8,219,821	181,971	136,429,592	136,430	1,608,858	(731,808)	
come						155,166	
come						155,166	
on and			663,238	680	6,595		
			(3,180,350)	(32)	(73,210)		
ange $1.00				(135,822)	135,822		
ority ders erships			99,573	84	1,360		
ority B					690		
red						(163,690)	
						(11,644)	
						(3,726)	

UNITED DOMINION REALTY TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)
(In thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	Deferred Compensation Unearned Restricted Stock	Notes Receivable from Officer-	Accumulated Other Comprehensive	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Income**	**Awards**	**Stockholders**	**Loss**	**To**
December 31,	8,219,821	181,971	134,012,053	1,340	1,680,115	(755,702)				1,1
hensive Income me						128,605				1
hensive income						128,605				1
of common and l shares and			636,072	6	9,357					
ent for on of minority of unitholders ing partnerships			381,001	4	7,984					
ent for on of minority owned by LLC					(2,059)					
of capped call strument					(12,588)					(
n stock ons declared er share)						(168,408)				(1
l stock ons -Series B er share)						(11,644)				(
l stock ons -Series E er share)						(3,726)				
December 31,	**8,219,821**	**$ 181,971**	**135,029,126**	**$ 1,350**	**$ 1,682,809**	**$ (810,875)**	**$**	**$**	**$**	**$ 1,0**

See accompanying notes to consolidated financial statements.

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and formation

United Dominion Realty Trust, Inc., a Maryland corporation, was formed in 1972. We operate within one defined business segment with activities related to the ownership, management, development, acquisition, renovation, and disposition of multifamily apartment communities nationwide. At December 31, 2006, we owned 242 communities and had five communities under development.

Basis of presentation

The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P., (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP), (collectively, UDR). As of December 31, 2006, there were 166,185,740 units in the Operating Partnership outstanding, of which 156,493,682 units or 94% were owned by UDR and 9,692,058 units or 6% were owned by limited partners (of which 1,650,322 are owned by the holders of the Series A OPPS). As of December 31, 2006, there were 5,542,200 units in the Heritage OP outstanding, of which 5,212,993 units or 94% were owned by UDR and 329,207 units or 6% were owned by limited partners. The consolidated financial statements of UDR include the minority interests of the unitholders in the Operating Partnership and the Heritage OP. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

Real estate

Real estate assets held for investment are carried at historical cost less accumulated depreciation and any recorded impairment losses.

Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized at cost and depreciated over their estimated useful lives if the value of the existing asset will be materially enhanced or the life of the related asset will be substantially extended beyond the original life expectancy.

UDR recognizes impairment losses on long-lived assets used in operations when there is an event or change in circumstance that indicates an impairment in the value of an asset and the undiscounted future cash flows are not sufficient to recover the asset s carrying value. Our cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. If such indicators of impairment are present, an impairment loss is recognized based on the excess of the carrying amount of

the asset over its fair value. Our estimates of fair market value represent our best estimate based upon industry trends and reference to market rates and transactions.

UDR purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases in accordance with FASB Statement No. 141, Business Combinations. The purchase price is allocated based on the relative fair

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease up period. UDR determines the fair value of in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining contractual lease period. UDR determines the fair value of in-place leases by considering the cost of acquiring similar leases, the foregone rents associated with the lease-up period, and the carrying costs associated with the lease-up period.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the asset less estimated cost to sell is less than the carrying value of the asset. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale which are expected to close within the next twelve months. Real estate held for disposition is carried at the lower of cost, net of accumulated depreciation, or fair value, less the cost to dispose, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for disposition properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for disposition properties are capitalized at cost. Depreciation is not recorded on real estate held for disposition.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which is 35 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets. The value of acquired in-place leases is amortized over the remaining term of each acquired in-place lease.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheet as Real estate under development. As each building in a project is completed and becomes available for lease-up, the total cost of the building is transferred to real estate held for investment and the assets are depreciated over their estimated useful lives. The cost of development projects includes interest, real estate taxes, insurance, and allocated development overhead during the construction period.

Interest, real estate taxes, and incremental labor and support costs for personnel working directly on the development site are capitalized as part of the real estate under development to the extent that such charges do not cause the carrying value of the asset to exceed its net realizable value. During 2006, 2005, and 2004, total interest capitalized was $5.2 million, $2.8 million, and $1.0 million, respectively.

Cash equivalents

Cash equivalents include all cash and liquid investments with maturities of three months or less when purchased.

Restricted cash

Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

Deferred financing costs

Deferred financing costs include fees and other external costs incurred to obtain debt financings and are generally amortized on a straight-line basis, which approximates the effective interest method, over a period not to exceed the term of the related debt. Unamortized financing costs are written-off when debt is retired before its maturity date. During 2006, 2005, and 2004, amortization expense was $6.1 million, $6.5 million, and $5.1 million, respectively.

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments in unconsolidated development joint ventures

Investments in unconsolidated joint ventures are accounted for using the equity method when major business decisions require approval by the other partners and UDR does not have control of the assets. Investments are recorded at cost and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. UDR eliminates intercompany profits on sales of services that are provided to joint ventures. Differences between the carrying value of investments and the underlying equity in net assets of the investee are due to capitalized interest on the investment balance and capitalized development and leasing costs that are recovered by UDR through fees during construction.

Revenue recognition

UDR s apartment homes are leased under operating leases with terms generally of one year or less. Rental income is recognized as it is earned and collectability is reasonably assured.

Advertising costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item Administrative and marketing. During 2006, 2005, and 2004, total advertising expense was $9.3 million, $11.2 million, and $10.5 million, respectively

Interest rate swap agreements

UDR accounts for its derivative instruments in accordance with Statements of Financial Accounting Standards No. 133 and No. 138, Accounting for Certain Derivative Instruments and Hedging Activities. At December 31, 2006, UDR has no derivative financial instruments reported on its Consolidated Balance Sheet. Prior to their maturity in July 2004, UDR s derivative financial instruments consisted of interest rate swap agreements that were designated as cash flow hedges of debt with variable interest rate features, and as qualifying hedges for financial reporting purposes. For a derivative instrument that qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings during the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

As part of UDR s overall interest rate risk management strategy, UDR used derivative financial instruments as a means to artificially fix variable rate debt or to hedge anticipated financing transactions. UDR s derivative transactions used for interest rate risk management included various interest rate swaps with indices that related to the pricing of specific financial instruments of UDR. Because of the close correlation between the hedging instrument and the underlying cash flow exposure being hedged, fluctuations in the value of the derivative instruments were generally offset by changes in the cash flow of the underlying exposures. As a result, UDR appropriately controlled the risk so that derivatives used for interest rate risk management would not have a material unintended effect on consolidated earnings. UDR does not enter into derivative financial instruments for trading purposes.

The fair value of UDR s derivative instruments were reported on the balance sheet at their current fair value. The estimated fair value for our interest rate swaps relied on prevailing market interest rates. The interest rate swap agreements were designated with all or a portion of the principal balance and term of a specific debt obligation. Each interest rate swap involved the periodic exchange of payments over the life of the related agreement. An amount received or paid on the interest rate swap was recorded on an accrual basis as an adjustment to the related interest expense of the outstanding debt based on the accrual method of

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounting. The related amount payable to and receivable from counterparties was included in other liabilities and other assets, respectively.

When the terms of the underlying transaction were modified, or when the underlying hedged item ceased to exist, all changes in the fair value of the instrument were marked-to-market with changes in value included in net income each period until the instrument matured, unless the instrument was redesignated as a hedge of another transaction. If a derivative instrument was terminated or the hedging transaction was no longer determined to be effective, amounts held in accumulated other comprehensive income were reclassified into earnings over the term of the future cash outflows on the related debt.

Comprehensive income

Comprehensive income, which is defined as all changes in equity during each period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Statements of Stockholders Equity. Other comprehensive income for 2004 consisted of unrealized gains or losses from derivative financial instruments. There is no difference between net income and total comprehensive income for 2006 and 2005.

Stock-based employee compensation plans

UDR adopted the fair-value-based method of accounting for share-based payments effective January 1, 2004, using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. UDR adopted Statement 123(R) on January 1, 2006, and has continued to use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees, which have not been granted since 2002. Statement 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date (as of January 1, 2006, there were no unvested stock options). UDR adopted Statement 123 using the modified prospective transition method (which applied only to awards granted, modified or settled after the adoption date). The adoption of the provisions of Statement 123(R) did not have a material impact on our financial position, results of operations, or cash flows.

Minority interests of unitholders in operating partnerships

Interests in operating partnerships held by limited partners are represented by operating partnership units (OP Units). The operating partnerships income is allocated to holders of OP Units based upon net income available to common stockholders and the weighted average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to minority interests in accordance with the terms of the individual partnership agreements. OP Units can be exchanged for cash or shares of UDR s common stock on a one-for-one basis, at the option of UDR. OP Units, as a percentage of total OP Units and shares outstanding, were 6.1% at December 31, 2006, 5.9% at December 31, 2005, and 6.3% at December 31, 2004.

Minority interests of outside partnerships

UDR has limited partners in certain real estate partnerships acquired in certain merger transactions. Net income for these partnerships is allocated based upon the percentage interest owned by these limited partners in each respective real estate partnership.

Earnings per share

Basic earnings per common share is computed based upon the weighted average number of common shares outstanding during the year. Diluted earnings per common share is computed based upon common

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shares outstanding plus the effect of dilutive stock options and other potentially dilutive common stock equivalents. The dilutive effect of stock options and other potentially dilutive common stock equivalents is determined using the treasury stock method based on UDR s average stock price.

The following table sets forth the computation of basic and diluted earning per share *(dollars in thousands, except per share amounts):*

	2006	2005	2004
Numerator for basic and diluted earnings per share			
Net income available to common stockholders	**$ 113,235**	$ 139,796	$ 71,892
Denominator:			
Denominator for basic earnings per share			
Weighted average common shares outstanding	**134,533**	136,920	128,711
Non-vested restricted stock awards	**(801)**	(777)	(614)
	133,732	136,143	128,097
Effect of dilutive securities:			
Employee stock options, non-vested restricted stock awards, and convertible debt			
Denominator for dilutive earnings per share	**133,732**	136,143	128,097
Basic earnings per share	**$ 0.85**	$ 1.03	$ 0.56
Diluted earnings per share	**$ 0.85**	$ 1.03	$ 0.56

The effect of the conversion of the operating partnership units, Series A, Series C, and Series D Out-Performance Partnership Shares, convertible preferred stock, and convertible debt is not dilutive and is therefore not included in the above calculations. If the operating partnership units were converted to common stock, the additional shares of common stock outstanding for the three years ended December 31, 2006, would be 8,693,981, 8,545,786, and 8,669,310 weighted average common shares, respectively. If the Series A Out-Performance Partnership Shares were converted to common stock, the additional shares of common stock outstanding for the three years ended December 31, 2006, would be 1,716,659, 1,778,251, and 1,791,329 weighted average common shares, respectively. If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding for the three years ended December 31, 2006, would be 2,803,812, 2,803,812, and 6,301,821 weighted average common shares, respectively. If the Series C and Series D Out-Performance Partnership Shares were converted to common stock, the additional shares of common stock outstanding for the year ended December 31, 2006, would be 313,145 and 75,869 weighted average common shares, respectively. If the convertible debt was converted to common stock, the additional shares of common stock outstanding for the year ended December 31, 2006, would be 68,132 weighted average common shares.

Income taxes

UDR is operated as, and elects to be taxed as, a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). Generally, a REIT complies with the provisions of the Code if it meets certain requirements concerning its income and assets, as well as if it distributes at least 90% of its REIT taxable income to its stockholders and will not be subject to U.S. federal income taxes if it distributes at least 100% of its income. Accordingly, no provision has been made for federal income taxes of the REIT. UDR is subject to certain state and local excise or franchise taxes, for which provision has been made. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to United States Federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as a REIT, we may be subject to certain state and local income taxes and to United States Federal income tax. We also will be required to pay a 100% tax on non-arms length transactions between us and a taxable REIT subsidiary and on any net income from sales of property that the IRS successfully asserts was property held for sale to customers in the ordinary course.

The differences between net income available to common stockholders for financial reporting purposes and taxable income before dividend deductions relate primarily to temporary differences, principally real estate depreciation and the tax deferral of certain gains on property sales. The differences in depreciation result from differences in the book and tax basis of certain real estate assets and the differences in the methods of depreciation and lives of the real estate assets.

Consolidation of development partnerships

UDR adopted FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities, as required, effective March 31, 2004. The adoption required the consolidation of all previously unconsolidated development projects, in which UDR was deemed to be the primary beneficiary. FIN No. 46 requires the Company to consolidate the assets, liabilities and results of operations of the activities of a variable interest entity, for which the Company includes only its development partnerships, if the Company is the primary beneficiary of the partnership. The primary beneficiary is the partner that is entitled to receive a majority of the entity s residual returns and/or is subject to a majority of the risk of loss from such entity s activities. As of December 31, 2006, UDR was the primary beneficiary of, and therefore consolidated, its three development partnerships.

Impact of recently issued accounting pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This interpretation requires that income tax positions recognized in an entity s tax returns have a more-likely-than-not chance of being sustained prior to recording the related tax benefit in the financial statements. Tax benefits would be derecognized if information became available which indicated that it was more-likely-than-not that the position would not be sustained. UDR will adopt this interpretation in the first quarter of fiscal 2007. The Company has substantially completed its analysis of the interpretation and does not expect it to have a material impact on its financial position.

2. REAL ESTATE OWNED

UDR operates in 33 markets dispersed throughout 16 states. At December 31, 2006, our largest apartment market was Orange County, California, where we owned 12% of our apartment homes, based upon carrying value. Excluding Orange County, California, UDR did not own more than 8% of its apartment homes in any one market, based upon carrying value.

The following table summarizes real estate held for investment at December 31, *(dollars in thousands):*

	2006	2005

Land and land improvements	**$ 1,359,691**	$ 1,220,654
Buildings and improvements	**3,899,409**	3,466,573
Furniture, fixtures, and equipment	**300,056**	243,858
Real estate held for investment	**5,559,156**	4,931,085
Accumulated depreciation	**(1,238,392)**	(1,000,109)
Real estate held for investment, net	**$ 4,320,764**	$ 3,930,976

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of real estate held for investment by major geographic markets (in order of carrying value, excluding real estate held for disposition and real estate under development) at December 31, 2006 (*dollars in thousands*):

	Number of Apartment Communities	Initial Acquisition Cost	Carrying Value	Accumulated Depreciation	Encumbrances
WESTERN REGION					
Orange County, CA	13	$ 642,350	$ 684,460	$ 50,353	$ 114,255
San Francisco, CA	10	427,219	445,360	43,450	19,645
Los Angeles, CA	6	186,774	197,287	21,291	90,722
San Diego, CA	5	154,551	162,878	15,434	39,176
Inland Empire, CA	3	91,763	145,540	14,124	13,394
Monterey Peninsula, CA	7	85,323	144,133	27,064	
Seattle, WA	6	107,432	114,875	17,159	58,621
Portland, OR	5	76,990	86,271	14,912	20,576
Sacramento, CA	2	51,899	64,563	16,005	45,837
MID-ATLANTIC REGION					
Metropolitan DC	8	214,961	249,270	39,663	30,691
Raleigh, NC	11	179,935	229,947	80,499	68,059
Baltimore, MD	10	146,257	176,424	46,277	13,286
Richmond, VA	9	106,326	174,696	62,532	61,532
Wilmington, NC	6	64,213	103,893	39,035	
Charlotte, NC	6	63,833	88,685	24,081	
Norfolk, VA	6	42,741	74,475	32,261	9,118
Other Mid-Atlantic	13	92,985	145,972	59,316	36,232
SOUTHEASTERN REGION					
Tampa, FL	12	213,597	273,531	71,233	63,253
Orlando, FL	12	142,034	219,802	78,286	47,871
Nashville, TN	10	132,719	187,754	49,632	71,585
Jacksonville, FL	4	82,178	110,344	31,193	17,043
Atlanta, GA	6	57,669	84,779	32,394	23,884
Other Florida	8	132,913	164,164	39,076	52,588
Other Southeastern	7	54,609	79,467	34,947	
SOUTHWESTERN REGION					
Houston, TX	16	185,965	265,438	79,615	40,693
Dallas, TX	6	192,525	199,570	22,376	23,971
Arlington, TX	6	75,335	95,916	29,851	20,543
Austin, TX	5	75,779	87,073	24,055	6,073
Denver, CO	2	64,362	70,425	18,699	
Phoenix, AZ	3	45,168	67,116	21,949	27,771

Other Southwestern	6	122,301	149,892	45,924	41,674
MIDWESTERN REGION					
Columbus, OH	6	111,315	165,785	46,884	40,635
Other Midwestern	3	20,241	24,890	6,694	6,241
Richmond Corporate		554	4,091	1,137	
Commercial		20,223	20,390	991	10,276
	238	$ 4,465,039	$ 5,559,156	$ 1,238,392	$ 1,115,245

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of real estate held for disposition by major category at December 31, 2006 *(dollars in thousands):*

	Initial Acquisition Cost	Carrying Value	Accumulated Depreciation	Encumbrances
Apartments	$ 51,062	$ 52,506	$ 14,808	$
Land	3,932	4,147		
	$ 54,994	$ 56,653	$ 14,808	$

The following is a summary of real estate under development by major category at December 31, 2006 *(dollars in thousands):*

	Initial Acquisition Cost	Carrying Value	Accumulated Depreciation	Encumbrances
Apartments	$ 20,752	$ 34,377	$	$
Land and joint ventures	109,776	169,936	527	67,674
	$ 130,528	$ 204,313	$ 527	$ 67,674
Total Real Estate Owned	$ 4,650,561	$ 5,820,122	$ 1,253,727	$ 1,182,919

3. INCOME FROM DISCONTINUED OPERATIONS

UDR adopted FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (FAS 144) as of January 1, 2002. FAS 144 requires, among other things, that the primary assets and liabilities and the results of operations of UDR s real properties which have been sold subsequent to January 1, 2005, or are held for disposition subsequent to January 1, 2005, be classified as discontinued operations and segregated in UDR s Consolidated Statements of Operations and Balance Sheets. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale which are expected to close within the next twelve months.

For purposes of these financial statements, FAS 144 results in the presentation of the primary assets and liabilities and the net operating results of those properties sold or classified as held for disposition through December 31, 2006, as discontinued operations for all periods presented. The adoption of FAS 144 does not have an impact on net income available to common stockholders. FAS 144 only results in the reclassification of the operating results of all properties

sold or classified as held for disposition through December 31, 2006 within the Consolidated Statements of Operations for the years ended December 31, 2006, 2005, and 2004, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets as of December 31, 2006 and 2005.

For the year ended December 31, 2006, UDR sold 24 communities and 384 condominiums from four communities with a total of 612 condominiums. We recognized gains for financial reporting purposes of $148.6 million on these sales. At December 31, 2006, UDR had two communities with a net book value of $18.3 million, one community with a total of 320 condominiums and a net book value of $19.0 million, one commercial unit with a net book value of $0.4 million, and one parcel of land with a net book value of $4.1 million included in real estate held for disposition. During 2005, UDR sold 22 communities, 240 condominiums from five communities with a total of 648 condominiums, and one parcel of land. We recognized gains for financial reporting purposes of $139.7 million on these sales. In conjunction with the sale of ten communities in July 2005, we received short-term notes for $124.7 million that bear interest at 6.75% and had maturities ranging from September 2005 to July 2006. As of December 31, 2006, all of the notes receivable had matured and had been repaid. We recognized previously deferred gains for financial reporting

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

purposes of $6.4 million for the twelve months ended December 31, 2006. During 2004, UDR sold 19 communities, 24 condominiums from a community of 36 condominiums, and one parcel of land. The results of operations for these properties and the interest expense associated with the secured debt on these properties are classified on the Consolidated Statements of Operations in the line item entitled Income from discontinued operations, net of minority interests.

The following is a summary of income from discontinued operations for the years ended December 31, *(dollars in thousands)*:

	2006	2005	2004
Rental income	**$ 42,441**	$ 80,466	$ 136,944
Non-property income/(loss)	**5**	8	(2)
	42,446	80,474	136,942
Rental expenses	**18,666**	35,321	57,866
Real estate depreciation	**7,366**	18,907	33,495
Interest	**(1,102)**	(49)	1,977
Loss on early debt retirement		1,821	
Other expenses	**36**	113	258
	24,966	56,113	93,596
Income before net gain on the sale of depreciable property and minority interests	**17,480**	24,361	43,346
Net gain on the sale of land and depreciable property	**148,614**	139,724	52,903
Income before minority interests	**166,094**	164,085	96,249
Minority interests on income from discontinued operations	**(10,082)**	(9,648)	(6,073)
Income from discontinued operations, net of minority interests	**$ 156,012**	$ 154,437	$ 90,176

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SECURED DEBT

Secured debt on continuing and discontinued operations of UDR s real estate portfolio, which encumbers $1.9 billion or 33% of real estate owned based upon book value ($3.9 billion or 67% of UDR s real estate owned is unencumbered) consists of the following as of December 31, 2006 *(dollars in thousands):*

	Principal Outstanding		Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Properties Encumbered
	December 31, 2006	**December 31, 2005**	**2006**	**2006**	**2006**
Fixed Rate Debt					
Mortgage notes payable	**$ 352,159**	$ 359,281	5.49%	4.7	15
Tax-exempt secured notes payable	**26,070**	26,400	5.84%	18.2	3
Fannie Mae credit facilities	**399,362**	363,875	6.09%	4.4	9
Total fixed rate secured debt	**777,591**	749,556	5.81%	5.0	27
Variable Rate Debt					
Mortgage notes payable	**105,089**	66,464	6.42%	4.3	4
Tax-exempt secured note payable	**7,770**	7,770	3.70%	21.5	1
Fannie Mae credit facility	**292,469**	292,469	5.86%	5.8	46
Total variable rate secured debt	**405,328**	366,703	5.97%	5.7	51
Total secured debt	**$ 1,182,919**	$ 1,116,259	5.86%	5.2	78

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2007 through July 2027 and carry interest rates ranging from 4.55% to 8.18%.

Tax-exempt secured notes payable. Fixed rate mortgage notes payable that secure tax-exempt housing bond issues mature at various dates from May 2008 through March 2031 and carry interest rates ranging from 5.30% to 6.47%. Interest on these notes is generally payable in semi-annual installments.

Secured credit facilities. At December 31, 2006, UDR s fixed rate secured credit facilities consisted of $399.4 million of the $691.8 million outstanding on an $860 million aggregate commitment under four revolving secured credit facilities with Fannie Mae. The Fannie Mae credit facilities are for an initial term of ten years, bear interest at floating and fixed rates, and can be extended for an additional five years at our discretion. As of December 31, 2006, the fixed rate Fannie Mae credit facilities had a weighted average fixed rate of interest of 6.09%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from October 2009 through July 2013. As of December 31, 2006, these notes had interest rates ranging from 5.99% to 7.70%.

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures in July 2028. As of December 31, 2006, this note had an interest rate of 3.70%. Interest on this note is payable in monthly installments.

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Secured credit facilities. At December 31, 2006, UDR s variable rate secured credit facilities consisted of $292.5 million outstanding on the Fannie Mae credit facilities. As of December 31, 2006, the variable rate Fannie Mae credit facilities had a weighted average floating rate of interest of 5.86%.

The aggregate maturities of secured debt for the five years subsequent to December 31, 2006 are as follows *(dollars in thousands):*

Year	Fixed Mortgage Notes	Fixed Tax-Exempt Notes	Fixed Credit Facilities	Variable Mortgage Notes	Variable Tax-Exempt Notes	Variable Credit Facilities	Total
2007	$ 81,376	$ 345	$	$	$	$	$ 81,721
2008	4,346	5,135					9,481
2009	27,763	245		45,403			73,411
2010	98,027	265	174,362	22,271			294,925
2011	11,726	280	50,000			39,513	101,519
Thereafter	128,921	19,800	175,000	37,415	7,770	252,956	621,862
	$ 352,159	$ 26,070	$ 399,362	$ 105,089	$ 7,770	$ 292,469	$ 1,182,919

During the first quarter of 2005, we prepaid approximately $110 million of secured debt. In conjunction with these prepayments, we incurred prepayment penalties of $8.5 million in both continuing and discontinued operations as Loss on early debt retirement. These penalties were funded by the proceeds from the sale of our technology investment of $12.3 million.

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. UNSECURED DEBT

A summary of unsecured debt as of December 31, 2006 and 2005 is as follows *(dollars in thousands):*

	2006	2005
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due May 2008(a)	**$ 87,200**	$ 210,800
Senior Unsecured Notes Other		
7.95% Medium-Term Notes due July 2006		85,374
7.07% Medium-Term Notes due November 2006		25,000
7.25% Notes due January 2007(b)	**92,255**	92,255
4.30% Medium-Term Notes due July 2007	**75,000**	75,000
4.50% Medium-Term Notes due March 2008	**200,000**	200,000
8.50% Monthly Income Notes due November 2008	**29,081**	29,081
4.25% Medium-Term Notes due January 2009	**50,000**	50,000
6.50% Notes due June 2009	**200,000**	200,000
3.90% Medium-Term Notes due March 2010	**50,000**	50,000
3.625% Convertible Senior Notes due September 2011(c)	**250,000**	
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
6.05% Medium-Term Notes due June 2013	**121,345**	
5.13% Medium-Term Notes due January 2014	**200,000**	200,000
5.25% Medium-Term Notes due January 2015	**250,000**	250,000
5.25% Medium-Term Notes due January 2016	**100,000**	100,000
8.50% Debentures due September 2024	**54,118**	54,118
4.00% Convertible Senior Notes due December 2035(d)	**250,000**	250,000
Other	**167**	370
	2,021,966	1,761,198
Unsecured Notes Other		
Verano Construction Loan due February 2006		24,820
ABAG Tax-Exempt Bonds due August 2008	**46,700**	46,700
	46,700	71,520
Total Unsecured Debt	**$ 2,155,866**	$ 2,043,518

(a) UDR has a three-year $500 million unsecured revolving credit facility. The credit facility matures on May 31, 2008, and at UDR s option, can be extended for an additional year. UDR has the right to increase the credit facility to $750 million under certain circumstances. Based on UDR s current credit ratings, the credit facility

carries an interest rate equal to LIBOR plus a spread of 57.5 basis points. Under a competitive bid feature, and for so long as UDR maintains an Investment Grade Rating, UDR has the right to bid out 100% of the commitment amount.

(b) In January 2007, this medium-term note matured and was repaid using proceeds from property dispositions.

(c) At any time on or after July 15, 2011, prior to the close of business on the second business day prior to September 15, 2011, and also following the occurrence of certain events, the notes will be convertible at the option of the holder. Upon conversion of the notes, UDR will deliver cash and common stock, if any,

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 trading day observation period. The initial conversion rate for each $1,000 principal amount of notes is 26.6326 shares of our common stock, subject to adjustment under certain circumstances. In connection with the issuance of the 3.625% convertible senior notes, UDR entered into a capped call transaction with respect to its common stock. The convertible note and capped call transactions, both of which expire September 2011, must be net share settled. The maximum number of shares to be issued under the convertible notes is 6.7 million shares, subject to certain adjustment provisions. The capped call transaction combines a purchased call option with a strike price of $37.548 with a written call option with a strike price of $43.806. These transactions have no effect on the terms of the 3.625% convertible senior notes and are intended to reduce the potential dilution upon future conversion of the 3.625% convertible senior notes by effectively increasing the initial conversion price to $43.806 per share, representing a 40% conversion premium. The net cost of $12.6 million of the capped call transaction was included in stockholders equity.

(d) Prior to December 15, 2030, upon the occurrence of specified events, the notes will be convertible at the option of the holder into cash and, in certain circumstances, shares of UDR s common stock at an initial conversion rate of 35.2988 shares per $1,000 principal amount of notes (which equates to an initial conversion price of approximately $28.33 per share). On or after December 15, 2030, the notes will be convertible at any time prior to the second business day prior to maturity at the option of the holder into cash and, in certain circumstances, shares of UDR s common stock at the above initial conversion rate. The initial conversion rate is subject to adjustment in certain circumstances.

The following is a summary of short-term bank borrowings under UDR s bank credit facility at December 31, *(dollars in thousands):*

	2006	2005	2004
Total revolving credit facilities at December 31	**$ 500,000**	$ 500,000	$ 500,000
Borrowings outstanding at December 31	**87,200**	210,800	278,100
Weighted average daily borrowings during the year	**264,102**	315,487	127,665
Maximum daily borrowings during the year	**415,800**	440,200	356,500
Weighted average interest rate during the year	**5.3%**	3.6%	2.0%
Weighted average interest rate at December 31	**5.6%**	4.7%	2.7%

The aggregate maturities of unsecured debt for the five years subsequent to December 31, 2006 are as follows *(dollars in thousands):*

Year	Credit Facility	Unsecured Debt	Total
2007	$	$ 167,265	$ 167,265
2008	87,200	275,790	362,990
2009		250,009	250,009

2010		50,010	50,010
2011		250,009	250,009
Thereafter		1,075,583	1,075,583
	$ 87,200	$ 2,068,666	$ 2,155,866

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. STOCKHOLDERS EQUITY

Preferred Stock

The Series B Cumulative Redeemable Preferred Stock has no stated par value and a liquidation preference of $25 per share. The Series B has no voting rights except as required by law. The Series B has no stated maturity and is not subject to any sinking fund or mandatory redemption and is not convertible into any of our other securities. The Series B is not redeemable prior to May 29, 2007. On or after this date, the Series B may be redeemed for cash at our option, in whole or in part, at a redemption price of $25 per share plus accrued and unpaid dividends. The redemption price is payable solely out of the sale proceeds of our other capital stock. All dividends due and payable on the Series B have been accrued or paid as of the end of each fiscal year.

Distributions declared on the Series B in 2006 were $2.15 per share or $0.5375 per quarter. The Series B is listed on the NYSE under the symbol UDRpb. At December 31, 2006 and 2005, a total of 5,416,009 shares of the Series B were outstanding.

The Series E Cumulative Convertible Preferred Stock has no stated par value and a liquidation preference of $16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder s option into one share of our common stock. The holders of the Series E are entitled to vote on an as-converted basis as a single class in combination with the holders of common stock at any meeting of our stockholders for the election of directors or for any other purpose on which the holders of common stock are entitled to vote. The Series E has no stated maturity and is not subject to any sinking fund or any mandatory redemption.

Distributions declared on the Series E in 2006 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2006 and 2005, a total of 2,803,812 shares of the Series E were outstanding.

UDR is authorized to issue up to 20,000,000 shares of our Series F Preferred Stock. The Series F Preferred Stock may be purchased by holders of UDR s operating partnership units, or OP Units, at a purchase price of $0.0001 per share. OP Unitholders are entitled to subscribe for and purchase one share of UDR s Series F Preferred Stock for each OP Unit held. At December 31, 2006, a total of 666,293 shares of the Series F Preferred Stock were outstanding at a value of $66.63. As of December 31, 2005, we had not issued any shares of our Series F Preferred Stock. Holders of the Series F Preferred Stock are entitled to one vote for each share of the Series F Preferred Stock they hold, voting together with the holders of our common stock, on each matter submitted to a vote of securityholders at a meeting of our stockholders. The Series F Preferred Stock does not entitle its holders to any other rights, privileges or preferences.

Dividend Reinvestment and Stock Purchase Plan

UDR s Dividend Reinvestment and Stock Purchase Plan (the Stock Purchase Plan) allows common and preferred stockholders the opportunity to purchase, through the reinvestment of cash dividends, additional shares of UDR s common stock. As of December 31, 2006, 9,893,700 shares of common stock had been issued under the Stock Purchase Plan. Shares in the amount of 15,106,300 were reserved for further issuance under the Stock Purchase Plan as of December 31, 2006. During 2006, 44,691 shares were issued under the Stock Purchase Plan for a total

consideration of approximately $1.3 million.

Restricted Stock Awards

UDR s 1999 Long-Term Incentive Plan (LTIP) authorizes the grant of restricted stock awards to employees, officers, consultants, and directors of UDR. Compensation expense is recorded over the vesting period and is based upon the value of the common stock on the date of issuance. For the years ended

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006, 2005 and 2004, we recognized $4.5 million, $3.2 million, and $2.7 million, respectively, of compensation expense related to the amortization of restricted stock. As of December 31, 2006, 1,268,448 shares of restricted stock have been issued under the LTIP.

Shareholder Rights Plan

UDR s First Amended and Restated Rights Agreement is intended to protect long-term interests of stockholders in the event of an unsolicited, coercive or unfair attempt to take over UDR. The plan authorized a dividend of one Preferred Share Purchase Right (the Rights) on each share of common stock outstanding. Each Right, which is not currently exercisable, will entitle the holder to purchase 1/1000 of a share of a new series of UDR s preferred stock, designated as Series C Junior Participating Cumulative Preferred Stock, at a price to be determined upon the occurrence of the event, and for which the holder must be paid $45 should the takeover occur. Under the Plan, the Rights will be exercisable if a person or group acquires more than 15% of UDR s common stock or announces a tender offer that would result in the ownership of 15% of UDR s common stock.

7. FINANCIAL INSTRUMENTS

The following estimated fair values of financial instruments were determined by UDR using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts UDR would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amounts and estimated fair value of UDR s financial instruments as of December 31, 2006 and 2005, are summarized as follows *(dollars in thousands)*:

	2006		**2005**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Secured debt	**$ 1,182,919**	**$ 1,178,078**	$ 1,116,259	$ 1,123,108
Unsecured debt	**2,155,866**	**2,056,929**	2,043,518	2,032,211

The following methods and assumptions were used by UDR in estimating fair values.

Cash equivalents

The carrying amount of cash equivalents approximates fair value.

Notes receivable

At December 31, 2006, UDR has a promissory note in the principal amount of $1.5 million that is due in February 2016. The note was received in connection with our investment in the development of an online leasing software and bears interest at 10.0%. In July 2006, UDR received a promissory note in the amount of $4.0 million that became due

in January 2007. This note was received in connection with a joint venture project and bears interest at 6.8%. The carrying amount of these notes receivable approximate their fair value.

In July 2005, UDR received short-term notes in the principal amount of $124.7 million that bear interest at 6.75% and had maturities ranging from September 2005 to July 2006. The notes were received in conjunction with the sale of ten communities. As of December 31, 2006, all of the notes receivable had matured and had been repaid. We recognized previously deferred gains for financial reporting purposes of $6.4 million during 2006.

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2003, UDR received a promissory note in the principal amount of $5 million that is due October 2011. The note was received in connection with one of our acquisitions and bears interest of 9.0% that is payable in annual installments. The carrying amount of this note receivable approximates its fair value.

Secured and unsecured debt

Estimated fair value is based on mortgage rates, tax-exempt bond rates, and corporate unsecured debt rates believed to be available to UDR for the issuance of debt with similar terms and remaining lives. The carrying amount of UDR s variable rate secured debt approximates fair value as of December 31, 2006 and 2005. The carrying amounts of UDR s borrowings under variable rate unsecured debt arrangements, short-term revolving credit agreements, and lines of credit, approximate their fair values as of December 31, 2006 and 2005.

8. INCOME TAXES

The aggregate cost of our real estate assets for federal income tax purposes was approximately $5.3 billion at December 31, 2006.

The following table reconciles UDR s net income to REIT taxable income for the three years ended December 31, 2006 *(dollars in thousands)*:

	2006	2005	2004
Net income	**$ 128,605**	$ 155,166	$ 97,152
Elimination of TRS income	**(6,955)**	(17,802)	(1,120)
Minority interest	**(4,219)**	(1,828)	(1,950)
Depreciation and amortization expense	**66,754**	56,274	46,916
Disposition of properties	**47,168**	(74,323)	(10,029)
Revenue recognition timing differences	**(1,249)**	(87)	(195)
Investment loss, not deductible for tax			(593)
Capitalized interest	**1,620**	1,720	
Compensation related differences	**(3,264)**	(2,174)	(3,174)
Other expense timing differences	**173**	(706)	2,102
Net operating loss	**(47,522)**		
REIT taxable income before dividends	**$ 181,111**	$ 116,240	$ 129,109
Dividend paid deduction	**$ 181,111**	$ 149,475	$ 153,409

For income tax purposes, distributions paid to common stockholders may consist of ordinary income, capital gains, and non-taxable return of capital, or a combination thereof. Distributions that exceed our current and accumulated earnings and profits constitute a return of capital rather than taxable income and reduce the stockholder s basis in their

common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholder s basis in the common shares, it generally will be treated

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as a gain from the sale or exchange of that stockholder s common shares. For the three years ended December 31, 2006, distributions paid per common share were taxable as follows:

	2006	2005	2004
Ordinary income	**$ 0.48**	$ 0.63	$ 0.76
Long-term capital gain	**0.46**	0.22	0.20
Unrecaptured section 1250 gain	**0.30**	0.13	0.08
Return of capital		0.21	0.12
	$ 1.24	$ 1.19	$ 1.16

We have taxable REIT subsidiaries that are subject to state and federal income taxes. Income tax expense consists of the following for the three years ended December 31, 2006, and is included in gains on the sales *(dollars in thousands)*:

	2006	2005	2004
Income tax expense/(benefit)			
Current	**$ 5,533**	$ 11,090	$ 867
Deferred	**(680)**	313	
Total income tax expense	**$ 4,853**	$ 11,403	$ 867

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income for the three years ended December 31, 2006, as follows *(dollars in thousands):*

	2006	2005	2004
Income tax expense/(benefit)			
Computed tax expense	**$ 4,134**	$ 10,193	$ 675
Permanent book/tax difference	**(99)**		
State income tax (net of federal benefit) and other	**818**	1,210	192
Total income tax expense	**$ 4,853**	$ 11,403	$ 867

Deferred income taxes reflect the estimated net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts for income

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax purposes. Our taxable REIT subsidiary s deferred tax assets and liabilities are as follows for the three years ended December 31, 2006 *(dollars in thousands):*

	2006	2005	2004
Deferred tax assets:			
Depreciation	**$ 550**	$	$
Capitalized interest	**159**		
Pre-paid rent	**84**	19	
Warranty expense	**11**		
Total deferred tax assets	**804**	19	
Deferred tax liabilities:			
Depreciation		(17)	
Interest	**(437)**	(315)	
Total deferred tax liabilities	**(437)**	(332)	
Net deferred tax asset/(liability)	**$ 367**	$ (313)	$

9. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

Our Profit Sharing Plan (the Plan) is a defined contribution plan covering all eligible full-time employees. Under the Plan, UDR makes discretionary profit sharing and matching contributions to the Plan as determined by the Compensation Committee of the Board of Directors. Aggregate provisions for contributions, both matching and discretionary, which are included in UDR s Consolidated Statements of Operations for the three years ended December 31, 2006, 2005, and 2004 were $0.7 million, $0.6 million, and $0.6 million, respectively.

Stock Option Plan

In May 2001, the stockholders of UDR approved the 1999 Long-Term Incentive Plan (the LTIP), which supersedes the 1985 Stock Option Plan. With the approval of the LTIP, no additional grants will be made under the 1985 Stock Option Plan. The LTIP authorizes the granting of awards which may take the form of options to purchase shares of common stock, stock appreciation rights, restricted stock, dividend equivalents, other stock-based awards, and any other right or interest relating to common stock or cash. The Board of Directors reserved 4 million shares for issuance upon the grant or exercise of awards under the LTIP. The LTIP generally provides, among other things, that options are granted at exercise prices not lower than the market value of the shares on the date of grant and that options granted must be exercised within ten years. The maximum number of shares of stock that may be issued subject to incentive stock options is 4 million shares. Shares under options that expire or are cancelable are available for subsequent grant.

UDR adopted the fair-value-based method of accounting for share-based payments effective January 1, 2004, using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. UDR adopted Statement 123(R) on January 1, 2006, and has continued to use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees, which have not been granted since 2002. Statement 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date (as of January 1, 2006, there were no unvested stock options). UDR adopted Statement 123 using the modified prospective transition method (which applied only to awards granted, modified or settled after the adoption date). The adoption of

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the provisions of Statement 123(R) did not have a material impact on our financial position, results of operations, or cash flows.

A summary of UDR s stock option activity during the three years ended December 31, 2006, is provided in the following table:

	Number Outstanding	Weighted Average Exercise Price	Range of Exercise Prices	
Balance, December 31, 2003	2,536,187	$ 11.88	$ 9.63	$ 15.38
Granted				
Exercised	(562,064)	11.90	9.63	15.25
Forfeited	(13,500)	12.02	10.88	13.96
Balance, December 31, 2004	1,960,623	11.88	9.63	15.38
Granted				
Exercised	(298,566)	12.02	9.88	14.63
Forfeited	(19,834)	13.80	9.88	15.25
Balance, December 31, 2005	1,642,223	11.84	9.63	15.38
Granted				
Exercised	(315,333)	13.52	9.63	15.38
Forfeited	(27,500)	11.47	9.63	14.63
Balance, December 31, 2006	**1,299,390**	**11.44**	**9.63**	**15.38**
Exercisable at December 31, 2004	1,938,343	$ 11.84	$ 9.63	$ 15.38
2005	1,635,666	11.82	9.63	15.38
2006	**1,299,390**	**11.44**	**9.63**	**15.38**

The weighted average remaining contractual life on all options outstanding is 3.7 years. 578,110 of share options had exercise prices between $9.63 and $10.88, 527,296 of share options had exercise prices between $11.15 and $12.23, and 193,984 of share options had exercise prices between $13.94 and $15.38.

As of December 31, 2006 and 2005, stock-based awards for 2,286,091 and 2,583,586 shares of common stock, respectively, were available for future grants under the 1999 LTIP s existing authorization.

10. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

UDR is committed to completing its wholly owned real estate currently under development, which has an estimated cost to complete of $52.6 million as of December 31, 2006.

UDR is committed to completing its development joint venture projects, which have an estimated cost to complete of $235.5 million at December 31, 2006.

UDR has entered into three contracts to purchase apartment communities upon their development completion. Provided that the developer meets certain conditions, UDR will purchase these communities for approximately $105.0 million.

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Land and Other Leases

UDR is party to several ground leases relating to operating communities. In addition, UDR is party to various other operating leases related to the operation of its regional offices and equipment. Future minimum lease payments for non-cancelable land and other leases as of December 31, 2006 are as follows *(dollars in thousands):*

	Ground Leases	Operating Leases
2007	$ 1,151	$ 1,619
2008	1,151	1,573
2009	1,154	1,582
2010	1,154	1,065
2011	1,154	308
Thereafter	20,971	
	$ 26,735	$ 6,147

UDR incurred $2.8 million, $2.4 million and $1.9 million of rent expense for the years ended December 31, 2006, 2005, and 2004.

Contingencies

Series C Out-Performance Program

In May 2005, the stockholders of UDR approved a new Out-Performance Program and the first series of new Out-Performance Partnership Shares under the program are the Series C Out-Performance Units (the Series C Program) pursuant to which certain executive officers and other key employees of UDR (the Series C Participants) were given the opportunity to purchase interests in UDR Out-Performance III, LLC, a Delaware limited liability company (the Series C LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series C Out-Performance Partnership Shares or Series C OPPSs) . The purchase price for the Series C OPPSs was determined by the Compensation Committee of UDR s board of directors to be $750,000, assuming 100% participation, and was based upon the advice of an independent valuation expert. UDR s performance for the Series C Program will be measured over the 36-month period from June 1, 2005 to May 30, 2008.

The Series C Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series C LLC as holder of the Series C OPPSs will receive (for the indirect benefit of the Series C Participants as holders of interests in the Series C LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, common stock equivalents and OP Units); and

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

iii. dividing the number obtained in clause (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of common stock for the 20 trading days immediately preceding the valuation date.

For the Series C OPPSs, the number determined pursuant to (ii) above is capped at 1% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series C Participants will forfeit their entire initial investment.

Based on the results through December 31, 2006, 313,145 Series C OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series C OPPSs to be issued will not occur until May 30, 2008, and the number of Series C OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series C OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series C OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the measurement period has ended and the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Series D Out-Performance Program

In February 2006, the board of directors of UDR approved the Series D Out-Performance Program (the Series D Program) pursuant to which certain executive officers and other key employees of UDR (the Series D Participants) were given the opportunity to purchase interests in UDR Out-Performance IV, LLC, a Delaware limited liability company (the Series D LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series D Out-Performance Partnership Shares or Series D OPPSs) . The Series D Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series D LLC has agreed to sell 830,000 membership units to members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $830,000 for the Series D OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert. The Series D Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2006 and ending December 31, 2008.

The Series D Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series D LLC as holder of the Series D OPPSs will receive (for the indirect benefit of the Series D Participants as holders of interests in the Series D LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days immediately preceding the valuation date.

For the Series D OPPSs, the number determined pursuant to clause (ii) above is capped at 1% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series D Participants will forfeit their entire initial investment.

Based on the results through December 31, 2006, 75,869 Series D OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series D OPPSs to be issued will not occur until December 31, 2008, and the number of Series D OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series D OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series D OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the measurement period has ended and the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Litigation and Legal Matters

UDR is subject to various legal proceedings and claims arising in the ordinary course of business. UDR cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. UDR believes that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on our financial condition, results of operations or cash flow.

11. INDUSTRY SEGMENTS

UDR owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. UDR separately evaluates the performance of each of its apartment communities. However, because each of the apartment communities has similar economic characteristics, facilities, services, and tenants, the apartment communities have been aggregated into a single apartment communities segment. All segment disclosure is included in or can be derived from UDR s consolidated financial statements.

There are no tenants that contributed 10% or more of UDR s total revenues during 2006, 2005, or 2004.

Table of Contents

UNITED DOMINION REALTY TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data for the year ended December 31, 2006, with restated amounts that reflect discontinued operations as of December 31, 2006, is as follows *(dollars in thousands, except per share amounts)*:

	Three Months Ended						
	Previously Reported March 31	**Restated March 31**	**Previously Reported June 30**	**Restated June 30**	**Previously Reported September 30**	**Restated September 30**	**December 31**
Rental income(a)	$ 176,810	$ 166,432	$ 174,257	$ 169,955	$ 177,634	$ 177,329	$ 180,757
Loss before minority interests and discontinued operations	(3,804)	(7,193)	(4,449)	(6,120)	(7,281)	(7,434)	(9,279)
Gain on sale of land and depreciable property	15,347	15,347	33,482	33,482	65,669	65,669	34,116
Income from discontinued operations, net of minority interests	15,359	18,550	36,163	37,748	65,893	66,060	33,654
Net income available to common stockholders	8,165	8,165	28,342	28,342	55,510	55,510	21,218
Earnings per common share:							
Basic	$ 0.06	$ 0.06	$ 0.21	$ 0.21	$ 0.42	$ 0.42	$ 0.16
Diluted	0.06	0.06	0.21	0.21	0.42	0.42	0.16

(a) Represents rental income from continuing operations.

Summarized consolidated quarterly financial data for the year ended December 31, 2005, with restated amounts that reflect discontinued operations as of December 31, 2006, is as follows *(dollars in thousands, except per share amounts)*:

Three Months Ended			
Previously	**Previously**	**Previously**	**Previously**

	Reported March 31	Restated March 31	Reported June 30	Restated June 30	Reported September 30	Restated September 30	Reported December 31	Restated December 31
Rental income(a)	$ 148,575	$ 148,552	$ 153,507	$ 153,466	$ 157,715	$ 157,683	$ 162,234	$ 162,203
Income/(loss) before minority interests and discontinued operations	1,490	1,427	436	322	(1,363)	(1,435)	1,447	(395)
Gain on sale of depreciable property	7,023	7,023	46,781	46,781	12,851	12,851	73,069	73,069
Income from discontinued operations, net of minority interests	13,365	13,424	51,850	51,957	16,154	16,224	71,100	72,832
Net income available to common stockholders	11,099	11,099	48,599	48,599	11,292	11,292	68,806	68,806
Earnings per common share:								
Basic	$ 0.08	$ 0.08	$ 0.36	$ 0.36	$ 0.08	$ 0.08	$ 0.51	$ 0.51
Diluted	0.08	0.08	0.36	0.36	0.08	0.08	0.51	0.51

(a) Represents rental income from continuing operations.

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED
FOR THE YEAR ENDED DECEMBER 31, 2006

	Initial Costs		**Total**	**Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)**	**Gross Amount at Which Carried at Close of Period**			
es	**Land and Land Improvements**	**Buildings and Improvements**	**Initial Acquisition Costs**		**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**	**Acc Depr**
	$ 20,476,466	$ 28,537,805	$ 49,014,271	$ 7,898,037	$ 20,493,875	$ 36,418,434	$ 56,912,308	$
0	2,581,763	25,504,086	28,085,849	3,840,197	3,812,777	28,113,269	31,926,046	
0	7,345,226	22,623,676	29,968,902	5,763,978	7,347,018	28,385,862	35,732,880	
	8,055,452	22,485,746	30,541,198	3,736,930	8,073,730	26,204,398	34,278,128	
	12,285,059	6,236,783	18,521,843	1,059,650	12,364,081	7,217,412	19,581,493	
	229,270	14,128,763	14,358,033	492,828	10,618,842	4,232,020	14,850,861	
0	62,515,901	46,082,056	108,597,957	6,900,069	62,543,888	52,954,139	115,498,026	
	61,535,270	18,017,201	79,552,471	1,964,805	61,553,308	19,963,968	81,517,276	
	70,825,106	24,179,600	95,004,706	2,739,272	70,837,402	26,906,575	97,743,977	
	10,670,493	7,079,834	17,750,327	694,513	10,673,012	7,771,827	18,444,840	
	12,070,601	6,186,721	18,257,322	987,236	12,083,292	7,161,266	19,244,558	
	58,784,785	50,066,757	108,851,542	3,141,813	58,806,208	53,187,147	111,993,355	
4	29,562,468	14,283,292	43,845,760	2,890,338	29,597,246	17,138,852	46,736,098	
4	**356,937,860**	**285,412,320**	**642,350,180**	**42,109,666**	**368,804,677**	**315,655,169**	**684,459,846**	**5**

	9,860,627	44,577,506	54,438,133	2,854,200	10,040,340	47,251,993	57,292,333	1
8	4,365,315	16,695,509	21,060,824	3,786,621	4,712,807	20,134,638	24,847,445	
	5,995,838	24,868,350	30,864,188	2,604,763	6,163,618	27,305,332	33,468,951	
9	6,224,383	23,916,283	30,140,666	4,504,014	6,519,309	28,125,371	34,644,680	
	4,811,488	10,169,520	14,981,008	1,174,160	4,872,226	11,282,941	16,155,167	
	22,161,247	40,137,141	62,298,388	504,613	22,162,242	40,640,759	62,803,001	
	14,031,365	30,536,982	44,568,346	938,762	14,031,365	31,475,744	45,507,108	
	8,544,559	14,457,992	23,002,551	419,043	8,544,559	14,877,035	23,421,594	
	48,202,012	41,608,035	89,810,047	721,547	19,115,710	71,415,884	90,531,594	
	21,743,510	34,311,742	56,055,252	632,385	11,983,437	44,704,199	56,687,636	
7	**145,940,343**	**281,279,059**	**427,219,403**	**18,140,106**	**108,145,613**	**337,213,896**	**445,359,509**	**4**
3	21,953,480	67,808,654	89,762,134	4,477,221	21,956,364	72,282,990	94,239,354	
	8,414,478	17,449,593	25,864,072	687,590	8,422,028	18,129,634	26,551,661	
2	8,180,619	16,735,364	24,915,983	905,412	8,181,107	17,640,288	25,821,395	
1	4,498,439	11,699,117	16,197,556	356,713	4,499,424	12,054,845	16,554,268	
6	5,134,982	12,788,885	17,923,867	477,275	5,134,982	13,266,160	18,401,142	
	5,805,234	6,305,030	12,110,264	3,609,014	5,805,499	9,913,779	15,719,278	

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)	Gross Amount at Which Carried at Close of Period			
ces	Land and Land Improvements	Buildings and Improvements	Initial Acquisition Costs		Land and Land Improvements	Buildings and Improvements	Total Carrying Value(A)	Accumul Depreciati
51	**53,987,232**	**132,786,643**	**186,773,875**	**10,513,224**	**53,999,403**	**143,287,696**	**197,287,099**	**21,290**
00	9,163,939	22,694,492	31,858,431	2,502,405	9,303,196	25,057,640	34,360,836	3,891
68	6,516,636	10,717,601	17,234,237	671,327	6,558,856	11,346,708	17,905,564	1,464
	22,598,529	17,181,401	39,779,930	1,782,975	22,598,529	18,964,377	41,562,905	2,622
01	3,302,967	10,877,286	14,180,253	2,601,972	3,529,902	13,252,324	16,782,225	6,058
	15,920,401	35,577,599	51,498,000	768,629	15,920,401	36,346,228	52,266,629	1,396
69	**57,502,471**	**97,048,379**	**154,550,850**	**8,327,310**	**57,910,883**	**104,967,277**	**162,878,160**	**15,434**
	13,557,235	3,645,406	17,202,641	50,769,275	22,844,185	45,127,731	67,971,916	3,155
66	5,809,490	23,450,119	29,259,609	581,529	5,821,751	24,019,386	29,841,138	6,011
	10,597,865	34,702,760	45,300,625	2,426,382	10,633,799	37,093,208	47,727,007	4,956
66	**29,964,590**	**61,798,285**	**91,762,875**	**53,777,185**	**39,299,735**	**106,240,324**	**145,540,060**	**14,123**
	1,946,423	8,981,742	10,928,165	7,140,580	3,034,759	15,033,985	18,068,745	3,479
	888,038	4,187,950	5,075,988	3,572,799	1,422,217	7,226,571	8,648,787	1,719

	3,038,877	12,883,312	15,922,189	11,217,829	4,765,177	22,374,842	27,140,018	5,341
	1,303,902	5,115,356	6,419,258	4,522,311	2,003,855	8,937,714	10,941,569	2,120
	6,388,446	23,853,534	30,241,980	20,572,446	9,551,463	41,262,963	50,814,426	9,068
	2,043,736	8,028,443	10,072,179	7,490,799	3,122,621	14,440,357	17,562,978	3,244
	1,329,064	5,334,004	6,663,068	4,293,083	2,030,141	8,926,009	10,956,151	2,090
	16,938,486	**68,384,341**	**85,322,827**	**58,809,846**	**25,930,232**	**118,202,441**	**144,132,673**	**27,063**
76	1,453,342	11,994,972	13,448,314	1,711,634	1,630,050	13,529,898	15,159,948	4,539
	1,177,714	9,115,789	10,293,503	956,344	1,350,100	9,899,748	11,249,847	2,845
15	2,486,252	6,437,256	8,923,508	2,570,696	2,611,640	8,882,564	11,494,204	2,914
00	2,173,969	7,407,628	9,581,597	1,612,026	2,358,563	8,835,061	11,193,623	2,665
90	6,473,970	30,226,079	36,700,049	645,782	6,475,086	30,870,745	37,345,831	2,709
	6,178,440	22,306,568	28,485,008	(53,953)	6,183,441	22,247,614	28,431,055	1,485
81	**19,943,687**	**87,488,292**	**107,431,979**	**7,442,529**	**20,608,880**	**94,265,628**	**114,874,508**	**17,159**
32	2,485,291	7,451,165	9,936,456	997,021	2,585,754	8,347,722	10,933,477	2,681
09	3,272,585	9,134,089	12,406,674	2,301,184	3,473,991	11,233,867	14,707,858	3,477
	3,878,138	9,973,051	13,851,189	2,162,074	4,151,437	11,861,826	16,013,263	3,848
	2,916,576	16,994,580	19,911,155	2,369,972	2,952,315	19,328,812	22,281,127	2,623
	6,014,006	14,870,326	20,884,332	1,450,712	6,049,453	16,285,591	22,335,045	2,280
41	**18,566,596**	**58,423,211**	**76,989,807**	**9,280,963**	**19,212,951**	**67,057,819**	**86,270,770**	**14,912**
24	3,617,507	14,542,028	18,159,535	4,394,929	3,808,718	18,745,746	22,554,464	5,525
32	6,772,438	26,966,750	33,739,188	8,269,271	7,299,491	34,708,967	42,008,459	10,479

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)	Gross Amount at Which Carried at Close of Period		
es	**Land and Land Improvements**	**Buildings and Improvements**	**Initial Acquisition Costs**		**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**
76	**10,389,945**	**41,508,778**	**51,898,723**	**12,664,199**	**11,108,209**	**53,454,713**	**64,562,922**
56	**710,171,211**	**1,114,129,307**	**1,824,300,518**	**221,065,029**	**705,020,584**	**1,340,344,964**	**2,045,365,547**
07	3,311,468	13,283,047	16,594,515	4,424,806	3,545,478	17,473,843	21,019,321
08	2,366,061	8,386,439	10,752,500	3,795,102	2,621,422	11,926,180	14,547,602
	11,237,698	18,789,985	30,027,683	4,990,579	11,392,551	23,625,710	35,018,262
	6,417,889	13,411,278	19,829,167	5,315,499	6,604,751	18,539,915	25,144,666
	5,612,147	20,085,474	25,697,621	4,500,980	5,716,396	24,482,205	30,198,601
	262,807	11,188,623	11,451,430	3,566,136	2,349,837	12,667,728	15,017,566
	135,780	7,723,647	7,859,427	664,623	6,865,580	1,658,470	8,524,050
	873,713	38,209,345	39,083,059	4,069,116	26,079,836	17,072,338	43,152,174
	129,000	3,723,896	3,852,896	344,481	2,724,788	1,472,589	4,197,377
	13,753,346	36,059,193	49,812,539	2,638,247	13,757,766	38,693,020	52,450,786
5	**44,099,910**	**170,860,927**	**214,960,836**	**34,309,568**	**81,658,405**	**167,612,000**	**249,270,405**

	1,257,500	8,586,255	9,843,755	6,279,928	1,900,016	14,223,667	16,123,683
	500,000	4,321,872	4,821,872	6,887,089	1,097,199	10,611,762	11,708,961
0	3,622,103	12,405,020	16,027,123	6,760,428	4,455,793	18,331,758	22,787,551
	1,114,600	5,119,259	6,233,859	5,146,862	1,542,802	9,837,919	11,380,721
0	1,791,215	11,968,852	13,760,067	5,050,410	2,335,562	16,474,915	18,810,477
6	3,170,290	21,717,407	24,887,697	7,554,723	3,834,317	28,608,102	32,442,420
	907,605	6,819,154	7,726,759	2,386,160	1,091,589	9,021,330	10,112,919
	1,548,280	16,066,720	17,615,000	2,628,922	1,997,913	18,246,010	20,243,922
3	4,579,648	17,575,712	22,155,360	3,575,763	4,736,740	20,994,383	25,731,123
9	2,846,027	20,768,425	23,614,452	2,644,303	6,951,720	19,307,035	26,258,755
	9,943,644	23,305,862	33,249,506	1,096,793	10,230,376	24,115,923	34,346,299

Table of Contents

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

Initial Costs		**Total**	**Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)**	**Gross Amount at Which Carried at Close of Period**			
Land and Land Improvements	**Buildings and Improvements**	**Initial Acquisition Costs**		**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**	**Accumulated Depreciation(B)**
31,280,912	**148,654,538**	**179,935,450**	**50,011,382**	**40,174,028**	**189,772,804**	**229,946,832**	**80,499,294**
2,078,422	6,084,526	8,162,948	5,503,663	2,365,699	11,300,912	13,666,611	5,135,261
1,564,942	7,006,574	8,571,516	2,495,532	1,675,898	9,391,151	11,067,048	4,342,446
2,361,167	9,384,171	11,745,338	4,125,433	2,860,319	13,010,452	15,870,771	6,087,016
2,919,481	9,099,691	12,019,172	6,347,260	4,378,480	13,987,952	18,366,432	7,207,697
903,122	4,668,956	5,572,078	1,952,758	1,089,062	6,435,774	7,524,836	2,757,593
2,665,869	10,109,175	12,775,044	1,957,319	2,717,825	12,014,538	14,732,363	5,455,022
4,144,926	17,149,514	21,294,440	2,619,873	4,422,508	19,491,805	23,914,313	4,967,216
4,408,192	24,692,115	29,100,307	2,428,939	4,460,681	27,068,565	31,529,246	4,574,291
4,653,393	23,951,828	28,605,221	2,495,009	4,705,817	26,394,413	31,100,230	4,548,583
1,620,382	6,790,681	8,411,063	241,462	1,623,363	7,029,162	8,652,525	1,201,701
27,319,896	**118,937,230**	**146,257,126**	**30,167,247**	**30,299,651**	**146,124,723**	**176,424,374**	**46,276,827**
1,965,097	12,203,965	14,169,062	6,727,029	2,511,753	18,384,338	20,896,091	10,389,533
			4,413,974	115,152	4,298,822	4,413,974	1,444,380
464,480	3,119,716	3,584,196	4,231,864	806,530	7,009,530	7,816,060	3,435,508

1,979,174	11,524,313	13,503,487	8,223,926	2,873,091	18,854,322	21,727,413	11,134,039
825,760	5,147,968	5,973,728	8,350,375	1,469,022	12,855,080	14,324,103	8,185,363
2,059,252	15,049,088	17,108,340	6,878,137	2,899,915	21,086,563	23,986,477	8,870,459
732,050	4,702,353	5,434,403	4,549,374	1,208,329	8,775,448	9,983,777	5,620,384
1,843,819	13,238,590	15,082,409	3,047,486	2,087,051	16,042,844	18,129,895	5,208,493
473,695	30,996,525	31,470,220	1,684,853	3,662,747	29,492,326	33,155,073	5,539,480
			20,263,426	1,496,149	18,767,277	20,263,426	2,704,133
10,343,327	**95,982,518**	**106,325,845**	**68,370,445**	**19,129,740**	**155,566,550**	**174,696,290**	**62,531,772**
1,891,671	18,113,109	20,004,780	3,359,257	2,341,503	21,022,534	23,364,037	7,907,042
1,404,498	4,489,398	5,893,896	15,734,895	2,026,791	19,602,000	21,628,791	7,985,208
417,500	2,506,206	2,923,706	3,428,950	586,069	5,766,587	6,352,656	3,338,217
1,028,000	5,420,478	6,448,478	6,066,265	1,242,984	11,271,759	12,514,743	5,360,176
874,830	8,740,602	9,615,432	7,687,478	1,366,934	15,935,977	17,302,910	6,915,558
1,096,196	18,230,236	19,326,432	3,403,481	1,242,642	21,487,271	22,729,913	7,529,214

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized	Gross Amount at Which Carried at Close of Period			
ces	**Land and Land Improvements**	**Buildings and Improvements**	**Initial Acquisition Costs**	**Subsequent to Acquisition (Net of Disposals)**	**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**	**A De**
	6,712,695	**57,500,029**	**64,212,724**	**39,680,326**	**8,806,923**	**95,086,127**	**103,893,050**	
	886,788	6,728,097	7,614,885	2,995,445	1,322,977	9,287,353	10,610,330	
	698,860	6,488,061	7,186,921	2,431,204	748,028	8,870,096	9,618,125	
	667,368	4,856,103	5,523,471	2,178,737	1,009,817	6,692,391	7,702,208	
		22,047,803	22,047,803	14,447,925	7,696,924	28,798,804	36,495,728	
	1,666,312	4,774,020	6,440,332	1,467,959	1,685,696	6,222,595	7,908,292	
	1,968,664	13,051,238	15,019,902	1,330,002	2,018,804	14,331,099	16,349,904	
	5,887,992	**57,945,322**	**63,833,314**	**24,851,272**	**14,482,247**	**74,202,339**	**88,684,586**	
	780,117	8,861,878	9,641,995	5,505,641	1,229,199	13,918,437	15,147,636	
	798,700	7,209,525	8,008,225	6,823,032	1,890,883	12,940,374	14,831,257	
	155,000	5,316,738	5,471,738	4,036,128	538,045	8,969,822	9,507,866	
	1,823,983	4,106,710	5,930,693	4,060,696	2,101,598	7,889,791	9,991,389	
	616,800	3,400,672	4,017,472	7,842,956	1,130,593	10,729,834	11,860,428	
28	1,088,887	8,581,771	9,670,658	3,465,925	1,374,411	11,762,173	13,136,583	
28	**5,263,487**	**37,477,294**	**42,740,781**	**31,734,379**	**8,264,729**	**66,210,430**	**74,475,160**	
	2,730,722	5,300,203	8,030,925	2,761,845	2,953,583	7,839,187	10,792,770	

00	3,194,527	13,505,239	16,699,766	14,913,101	4,969,191	26,643,676	31,612,867
	965,114	5,250,374	6,215,488	2,020,953	1,102,913	7,133,528	8,236,441
	650,143	4,962,246	5,612,389	1,824,183	885,421	6,551,151	7,436,572
	709,559	6,117,582	6,827,141	3,313,853	933,574	9,207,420	10,140,994
	1,182,414	4,544,012	5,726,426	2,665,852	1,405,739	6,986,539	8,392,278
82	2,754,447	10,482,579	13,237,026	4,240,703	3,128,107	14,349,623	17,477,729
	2,007,878	6,365,053	8,372,931	4,974,927	2,406,628	10,941,230	13,347,858
	1,528,667	4,830,738	6,359,405	1,867,601	1,731,782	6,495,224	8,227,006
	346,330	3,036,956	3,383,286	3,003,337	610,050	5,776,573	6,386,623
	432,974	3,821,508	4,254,482	3,924,564	819,623	7,359,423	8,179,046
	840,000	3,873,139	4,713,139	4,485,672	1,560,651	7,638,160	9,198,811
	401,538	3,150,912	3,552,450	2,990,610	639,007	5,904,053	6,543,060
82	**17,744,313**	**75,240,541**	**92,984,854**	**52,987,201**	**23,146,267**	**122,825,788**	**145,972,055**
85	**148,652,532**	**762,598,399**	**911,250,931**	**332,111,820**	**225,961,989**	**1,017,400,761**	**1,243,362,750**

79

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized Subsequent to	Gross Amount at Which Carried at Close of Period			
ces	**Land and Land Improvements**	**Buildings and Improvements**	**Initial Acquisition Costs**	**Acquisition (Net of Disposals)**	**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**	**Accumul Depreciati**
	2,928,847	6,578,257	9,507,104	8,516,181	3,550,944	14,472,341	18,023,285	7,818.
	2,176,500	4,709,970	6,886,470	5,422,337	2,712,176	9,596,632	12,308,807	5,566.
	1,780,375	2,458,172	4,238,547	5,815,264	2,080,783	7,973,028	10,053,811	4,728.
56	1,395,051	10,647,377	12,042,428	5,491,060	1,910,324	15,623,164	17,533,488	6,482.
31	2,461,548	10,942,434	13,403,982	4,316,171	3,239,623	14,480,530	17,720,153	6,386.
	2,892,526	9,253,525	12,146,051	6,399,960	3,668,346	14,877,665	18,546,011	6,027.
	1,790,804	7,166,329	8,957,133	4,058,715	2,196,297	10,819,551	13,015,848	4,043.
	1,361,553	6,541,980	7,903,533	3,203,806	1,653,033	9,454,307	11,107,339	3,686.
83	2,241,880	7,552,520	9,794,400	3,575,848	2,432,269	10,937,979	13,370,248	3,175.
	7,701,679	23,149,670	30,851,349	6,454,915	7,853,451	29,452,813	37,306,264	6,567.
34	10,869,386	36,857,512	47,726,898	1,135,543	10,882,698	37,979,743	48,862,441	4,992.
	5,775,144	17,236,146	23,011,290	6,624	8,599,879	14,418,034	23,017,913	78.
	7,230,575	19,897,415	27,127,990	5,537,725	9,385,143	23,280,573	32,665,715	11,679.
04	**50,605,867**	**162,991,307**	**213,597,175**	**59,934,149**	**60,164,964**	**213,366,360**	**273,531,324**	**71,233,**
	2,387,368	7,458,897	9,846,265	6,780,692	3,435,653	13,191,304	16,626,957	6,407.

	1,845,853	4,155,275	6,001,128	5,460,882	2,451,952	9,010,058	11,462,010	4,893
	2,894,702	6,456,100	9,350,802	7,333,589	3,484,422	13,199,968	16,684,391	6,963
	1,532,700	11,076,062	12,608,762	14,886,642	2,736,050	24,759,354	27,495,404	9,472
	757,008	6,607,367	7,364,375	9,448,831	1,593,516	15,219,690	16,813,206	8,007
93	1,653,000	9,042,256	10,695,256	5,472,442	2,255,451	13,912,247	16,167,698	6,136
81	3,692,187	7,756,919	11,449,106	5,435,071	4,804,189	12,079,989	16,884,177	6,321
12	2,803,805	12,348,464	15,152,269	5,196,855	3,532,884	16,816,240	20,349,124	6,993
	2,184,723	8,638,664	10,823,387	4,991,006	2,563,451	13,250,942	15,814,393	4,519
	1,282,616	6,498,062	7,780,678	4,880,179	1,589,137	11,071,719	12,660,857	3,869
75	3,871,744	17,537,879	21,409,623	944,120	3,987,764	18,365,979	22,353,743	7,546
	6,692,423	12,860,210	19,552,633	6,937,463	6,778,814	19,711,281	26,490,095	7,153

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized Subsequent to	Gross Amount at Which Carried at Close of Period			
ances	Land and Land Improvements	Buildings and Improvements	Initial Acquisition Costs	Acquisition (Net of Disposals)	Land and Land Improvements	Buildings and Improvements	Total Carrying Value(A)	Accum Deprecia
,361	**31,598,129**	**110,436,155**	**142,034,284**	**77,767,772**	**39,213,283**	**180,588,772**	**219,802,055**	**78,28**
	1,147,660	5,867,567	7,015,227	5,880,561	1,526,816	11,368,973	12,895,788	5,37
	1,468,727	11,583,786	13,052,513	4,911,998	1,899,394	16,065,117	17,964,511	6,28
,087	2,117,244		2,117,244	27,526,840	3,967,960	25,676,124	29,644,084	8,96
	707,508	5,461,251	6,168,759	2,674,154	945,770	7,897,143	8,842,913	3,33
,206	2,139,774	15,231,201	17,370,975	3,722,807	2,805,862	18,287,920	21,093,782	7,20
	766,428	7,713,862	8,480,290	2,322,278	1,057,665	9,744,904	10,802,568	3,53
	1,376,190	10,931,309	12,307,499	3,123,604	1,709,625	13,721,478	15,431,103	4,74
,011	1,459,754	16,014,857	17,474,611	1,746,703	1,706,650	17,514,664	19,221,314	5,13
,588	3,181,524	24,674,264	27,855,788	1,886,898	3,182,047	26,560,639	29,742,686	4,31
,592	4,582,666	16,293,022	20,875,688	1,239,621	4,582,666	17,532,643	22,115,308	73
,484	**18,947,475**	**113,771,119**	**132,718,594**	**55,035,463**	**23,384,454**	**164,369,604**	**187,754,057**	**49,63**
,773	1,634,330	11,226,990	12,861,320	8,429,832	2,567,951	18,723,201	21,291,152	8,65
	1,834,535	14,864,742	16,699,277	7,908,532	2,805,120	21,802,689	24,607,809	9,82
	4,034,039	11,192,842	15,226,881	8,779,968	5,035,720	18,971,130	24,006,849	9,31
	4,288,214	33,101,763	37,389,977	3,047,934	4,303,230	36,134,681	40,437,911	3,39

,773	**11,791,118**	**70,386,337**	**82,177,455**	**28,166,266**	**14,712,021**	**95,631,701**	**110,343,721**	**31,19**
	884,500	2,807,839	3,692,339	2,899,122	1,225,530	5,365,931	6,591,461	3,12
	1,509,633	7,544,018	9,053,651	3,382,405	1,896,449	10,539,607	12,436,056	4,97
,352	1,924,325	7,376,454	9,300,779	4,262,517	2,269,177	11,294,119	13,563,296	4,75
,388	2,763,324	6,902,996	9,666,320	7,697,445	3,470,002	13,893,762	17,363,765	7,50
,033	2,985,599	11,087,903	14,073,502	6,260,074	3,555,338	16,778,237	20,333,576	8,19
	1,579,478	10,302,679	11,882,157	2,608,898	1,720,613	12,770,442	14,491,055	3,83
,773	**11,646,859**	**46,021,889**	**57,668,748**	**27,110,461**	**14,137,110**	**70,642,099**	**84,779,209**	**32,39**
	959,284	6,864,666	7,823,950	3,240,693	1,270,466	9,794,177	11,064,643	4,48
,000	1,840,230	11,571,625	13,411,855	6,738,357	2,825,371	17,324,841	20,150,212	8,07
	1,446,553	9,287,878	10,734,431	4,636,633	1,715,638	13,655,426	15,371,064	4,25
,487	15,968,090	56,400,716	72,368,806	1,539,321	15,977,983	57,930,144	73,908,127	7,39
	789,953	4,767,055	5,557,008	4,111,047	1,523,927	8,144,128	9,668,055	3,66
	765,949	5,407,683	6,173,632	2,236,521	1,022,210	7,387,943	8,410,153	3,03
	1,434,450	4,940,166	6,374,616	4,773,865	1,928,945	9,219,536	11,148,481	4,78
	3,373,265	7,095,763	10,469,028	3,974,454	3,529,056	10,914,425	14,443,482	3,38

Table of Contents

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

	Initial Costs		Total	Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)	Gross Amount at Which Carried at Close of Period		
ances	**Land and Land Improvements**	**Buildings and Improvements**	**Initial Acquisition Costs**		**Land and Land Improvements**	**Buildings and Improvements**	**Total Carrying Value(A)**
8,487	**26,577,774**	**106,335,552**	**132,913,326**	**31,250,890**	**29,793,596**	**134,370,620**	**164,164,216**
	824,847	5,307,194	6,132,041	2,729,836	1,232,747	7,629,130	8,861,877
	1,428,826	9,371,378	10,800,204	3,988,361	2,088,903	12,699,663	14,788,565
	395,516	2,902,040	3,297,556	2,519,287	622,699	5,194,144	5,816,843
	957,980	6,947,939	7,905,919	2,927,718	1,356,812	9,476,826	10,833,637
	1,363,046	10,118,453	11,481,499	2,779,701	2,032,419	12,228,781	14,261,200
	1,122,500	12,055,625	13,178,125	3,610,859	1,535,821	15,253,163	16,788,984
	212,500	1,600,757	1,813,257	6,302,406	1,531,073	6,584,590	8,115,663
	6,305,215	**48,303,386**	**54,608,601**	**24,858,169**	**10,400,473**	**69,066,297**	**79,466,770**
5,082	**157,472,437**	**658,245,744**	**815,718,182**	**304,123,170**	**191,805,900**	**928,035,452**	**1,119,841,352**
	1,543,000	5,457,000	7,000,000	4,875,303	1,983,968	9,891,335	11,875,303
	5,313,920	19,626,181	24,940,101	6,845,183	6,216,165	25,569,119	31,785,284
	2,297,741	7,157,965	9,455,706	3,496,578	2,879,326	10,072,959	12,952,284
	4,058,090	14,755,809	18,813,899	9,264,436	5,045,457	23,032,878	28,078,335

8,750	3,048,212	10,961,749	14,009,961	4,326,210	3,677,697	14,658,474	18,336,171
	3,604,483	11,592,432	15,196,915	6,404,146	3,886,426	17,714,635	21,601,061
	899,515		899,515	9,768,750	1,353,386	9,314,878	10,668,265
1,501	1,991,478	5,787,626	7,779,104	4,097,253	2,548,802	9,327,555	11,876,357
3,563	498,632	6,520,172	7,018,804	2,236,784	745,468	8,510,120	9,255,588
	1,688,948	6,684,229	8,373,177	1,326,208	2,155,086	7,544,298	9,699,385
	2,018,478	6,667,450	8,685,928	3,593,364	2,664,679	9,614,613	12,279,292
	1,150,669	4,155,411	5,306,080	1,658,833	1,230,221	5,734,692	6,964,913
	1,413,851	6,453,847	7,867,698	3,031,406	1,627,436	9,271,668	10,899,104
	1,333,958	5,308,884	6,642,842	2,473,736	1,743,690	7,372,888	9,116,578
	1,995,011		1,995,011	12,213,814	3,871,213	10,337,612	14,208,825
8,944	1,151,180	40,829,514	41,980,694	3,860,925	6,682,943	39,158,677	45,841,620

Table of Contents

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

Initial Costs		Total	Cost of Improvements Capitalized	Gross Amount at Which Carried at Close of Period			
Land and Land Improvements	Buildings and Improvements	Initial Acquisition Costs	Subsequent to Acquisition (Net of Disposals)	Land and Land Improvements	Buildings and Improvements	Total Carrying Value(A)	Accumulated Depreciation(B
34,007,166	**151,958 ,269**	**185,965,435**	**79,472,927**	**48,311,962**	**217,126,400**	**265,438,363**	**79,614,699**
2,151,056	8,167,630	10,318,686	3,432,019	2,558,931	11,191,774	13,750,705	4,164,586
6,012,806	29,094,186	35,106,992	1,858,096	6,462,648	30,502,441	36,965,088	10,668,030
7,541,141	31,484,858	39,025,999	1,042,371	7,566,237	32,502,133	40,068,370	5,910,584
2,197,794	7,512,983	9,710,777	326,964	2,197,794	7,839,947	10,037,741	485,617
24,035,881	33,227,383	57,263,264	272,053	24,035,881	33,499,436	57,535,317	713,774
916,415	14,996,331	15,912,747	46,527	916,415	15,042,858	15,959,274	312,939
16,720,828	8,465,513	25,186,341	66,762	16,721,087	8,532,016	25,253,103	120,256
59,575,921	**132,948,885**	**192,524,806**	**7,044,793**	**60,458,993**	**139,110,606**	**199,569,599**	**22,375,786**
2,412,180	8,687,820	11,100,000	3,346,127	2,859,893	11,586,234	14,446,127	4,593,190
2,925,372	10,527,738	13,453,110	5,267,966	3,355,646	15,365,430	18,721,076	6,377,939
1,725,508	6,308,032	8,033,540	3,796,204	2,411,663	9,418,081	11,829,744	3,571,906
3,121,153	11,764,974	14,886,127	3,831,323	3,926,609	14,790,840	18,717,450	5,890,696
776,587	4,944,947	5,721,534	2,031,575	1,174,640	6,578,469	7,753,109	2,496,717

3,483,876	18,657,051	22,140,927	2,307,396	3,857,526	20,590,797	24,448,323	6,920,305
14,444,676	**60,890,562**	**75,335,238**	**20,580,591**	**17,585,977**	**78,329,852**	**95,915,829**	**29,850,752**
1,406,750	5,293,250	6,700,000	1,867,698	1,541,867	7,025,831	8,567,698	2,367,353
3,134,669	11,170,376	14,305,045	5,942,651	3,586,228	16,661,469	20,247,696	7,564,139
1,896,723	17,525,536	19,422,259	1,007,281	5,437,249	14,992,291	20,429,540	7,006,485
3,150,998	14,269,086	17,420,084	2,140,806	3,198,887	16,362,003	19,560,890	4,814,922
4,633,398	13,297,860	17,931,258	335,836	4,633,454	13,633,640	18,267,095	2,302,004
14,222,538	**61,556,108**	75,778,646	11,294,273	**18,397,685**	**68,675,235**	**87,072,919**	**24,054,903**
6,450,216	24,405,137	30,855,353	3,632,299	6,094,939	28,392,713	34,487,652	10,036,017
6,305,326	27,201,579	33,506,905	2,430,753	6,547,710	29,389,948	35,937,658	8,662,968
12,755,542	**51,606,716**	**64,362,258**	**6,063,051**	**12,642,649**	**57,782,661**	**70,425,309**	**18,698,985**
1,273,798	26,392,207	27,666,005	1,777,191	1,478,413	27,964,784	29,443,196	8,464,450
2,728,172		2,728,172	19,515,999	4,920,141	17,324,029	22,244,171	8,948,096
1,809,864	12,963,581	14,773,444	655,441	1,880,864	13,548,022	15,428,886	4,536,682

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

Initial Costs		Total	Cost of Improvements Capitalized Subsequent	Gross Amount at Which Carried at Close of Period		
Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	to Acquisition (Net of Disposals)	Land and Land Improvements	Buildings and Improvements	Total Carrying Value(A)
5,811,834	**39,355,788**	**45,167,621**	**21,948,632**	**8,279,419**	**58,836,834**	**67,116,25**
3,966,129	22,227,701	26,193,830	4,471,487	5,719,991	24,945,327	30,665,31
5,630,740	23,293,922	28,924,662	12,284,148	6,629,796	34,579,014	41,208,81
4,222,640	27,909,437	32,132,077	5,128,417	6,436,955	30,823,539	37,260,49
3,005,300	11,544,700	14,550,000	(1,453,838)	3,023,264	10,072,898	13,096,16
1,913,177	7,086,823	9,000,000	2,912,753	2,352,966	9,559,787	11,912,75
2,523,670	8,976,330	11,500,000	4,248,731	3,170,899	12,577,832	15,748,73
21,261,656	**101,038,913**	**122,300,569**	**27,591,699**	**27,333,871**	**122,558,396**	**149,892,26**
162,079,333	**599,355,241**	**761,434,574**	**173,995,966**	**193,010,556**	**742,419,985**	**935,430,54**
4,067,900	15,433,285	19,501,185	3,169,803	4,443,889	18,227,099	22,670,98
2,990,199	11,391,797	14,381,996	10,218,635	3,267,000	21,333,631	24,600,63
1,573,412		1,573,412	22,065,445	6,394,096	17,244,761	23,638,85
7,512,513	28,695,050	36,207,563	9,206,162	8,107,912	37,305,813	45,413,72
3,421,413	13,539,402	16,960,815	5,260,716	3,854,636	18,366,895	22,221,53
3,476,851	19,213,411	22,690,262	4,549,064	4,254,912	22,984,415	27,239,32

23,042,288	**88,272,945**	**111,315,233**	**54,469,827**	**30,322,445**	**135,462,615**	**165,785,06**
2,011,520	7,565,279	9,576,799	1,466,386	2,158,441	8,884,744	11,043,18
390,542	1,420,166	1,810,708	674,637	455,858	2,029,487	2,485,34
1,800,271	7,053,585	8,853,856	2,507,791	1,981,133	9,380,514	11,361,64
4,202,333	**16,039,030**	**20,241,363**	**4,648,814**	**4,595,432**	**20,294,745**	**24,890,17**
27,244,621	**104,311,975**	**131,556,596**	**59,118,641**	**34,917,877**	**155,757,359**	**190,675,23**
1,205,620,134	**3,238,640,667**	**4,444,260,801**	**1,090,414,625**	**1,350,716,906**	**4,183,958,521**	**5,534,675,42**
2,339,132	12,559,224	14,898,356	1,102,620	2,456,550	13,544,426	16,000,97
2,144,340	6,594,615	8,738,955	2,215,995	2,264,606	8,690,344	10,954,95
3,079,034	7,256,292	10,335,326	(9,962,536)		372,790	372,79
5,091,616	11,997,769	17,089,385	8,087,301	5,345,615	19,831,071	25,176,68
12,654,122	38,407,900	51,062,022	1,443,379	10,066,771	42,438,630	52,505,40

Table of Contents

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

Initial Costs		Total	Cost of Improvements Capitalized Subsequent	Gross Amount at Which Carried at Close of Period		
Land and Land mprovements	Buildings and Improvements	Total Initial Acquisition Costs	Cost of Improvements Capitalized Subsequent to Acquisition (Net of Disposals)	Land and Land Improvements	Buildings and Improvements	Total Carrying Value(A)
3,932,115		3,932,115	215,304	3,683,156	464,263	4,147,41
16,586,237	**38,407,900**	**54,994,137**	**1,658,683**	**13,749,927**	**42,902,893**	**56,652,82**
1,755,643	7,753,477	9,509,120	744,530	1,755,643	8,498,007	10,253,65
2,951,277		2,951,277	1,432,854	2,939,593	1,444,538	4,384,13
2,341,936		2,341,936	5,954,451	1,789,978	6,506,409	8,296,38
2,349,923		2,349,923	4,672,127	1,120,000	5,902,050	7,022,05
3,600,000		3,600,000	820,995	3,823,625	597,370	4,420,99
12,998,779	7,753,477	20,752,256	13,624,957	11,428,839	22,948,374	34,377,21
11,861,682	93,478	11,955,160	9,813	11,861,682	103,291	11,964,97
1,918,411		1,918,411	33,951	1,469,609	482,753	1,952,36
1,709,606		1,709,606	241,523	1,510,700	440,429	1,951,12
1,523,922		1,523,922	198,292	1,300,000	422,214	1,722,21
17,297,661		17,297,661	566,572	16,311,758	1,552,474	17,864,23
			1,026,785		1,026,785	1,026,78
55,651,137		55,651,137	19,923,573	55,651,137	19,923,573	75,574,71
5,793,892		5,793,892	28,077,606	31,590,000	2,281,498	33,871,49
13,926,400		13,926,400	9,733,535	13,926,400	9,733,535	23,659,93
			348,132		348,132	348,13
109,682,711	93,478	109,776,189	60,159,782	133,621,286	36,314,684	169,935,97
122,681,490	**7,846,955**	**130,528,445**	**73,784,739**	**145,050,126**	**59,263,058**	**204,313,18**

1,623,910		1,623,910	5	1,103,600	520,315	1,623,91
34,128	1,597,359	1,631,486	153	326,899	1,304,741	1,631,63
7,266,024	9,701,625	16,967,649	166,757	7,266,024	9,868,382	17,134,40
8,924,062	11,298,984	20,223,045	166,915	8,696,523	11,693,437	20,389,96
277,225	277,225	554,450	3,536,315	227,225	3,863,540	4,090,76
9,201,287	**11,576,209**	**20,777,495**	**3,703,230**	**8,923,748**	**15,556,977**	**24,480,72**
1,354,089,149	**$ 3,296,471,730**	**$ 4,650,560,879**	**$ 1,169,561,277**	**$ 1,518,440,706**	**$ 4,301,681,449**	**$ 5,820,122,15**

(A) The aggregate cost for federal income tax purposes was approximately $5.3 billion at December 31, 2006.

(B) The depreciable life for all buildings is 35 years.

85

UNITED DOMINION REALTY TRUST

SCHEDULE III REAL ESTATE OWNED (Continued)

3-YEAR ROLLFORWARD OF REAL ESTATE OWNED AND ACCUMULATED DEPRECIATION

The following is a reconciliation of the carrying amount of total real estate owned at December 31:

	2006	2005	2004
Balance at beginning of year	**$ 5,512,424,090**	$ 5,243,295,963	$ 4,351,551,324
Real estate acquired	**392,058,366**	439,559,832	1,069,800,745
Capital expenditures & development	**379,629,467**	205,465,000	101,520,917
Real estate sold	**(463,989,768)**	(375,896,705)	(279,577,023)
Balance at end of year	**$ 5,820,122,155**	$ 5,512,424,090	$ 5,243,295,963

The following is a reconciliation of total accumulated depreciation for real estate owned at December 31:

	2006	2005	2004
Balance at beginning of year	**$ 1,123,829,081**	$ 1,007,887,007	$ 896,630,032
Depreciation expense for the year	**243,348,343**	208,393,075	178,045,994
Accumulated depreciation on sales	**(113,450,643)**	(92,451,001)	(66,789,019)
Balance at end of year	**$ 1,253,726,781**	$ 1,123,829,081	$ 1,007,887,007

Table of Contents

EXHIBIT INDEX

The exhibits listed below are filed as part of this Report. References under the caption Location to exhibits or other filings indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. Management contracts and compensatory plans or arrangements filed as exhibits to this Report are identified by an asterisk. The Commission file number for our Exchange Act filings referenced below is 1-10524.

Exhibit	Description	Location
2.01	Agreement and Plan of Merger dated as of December 19, 1997, between the Company, ASR Investment Corporation and ASR Acquisition Sub, Inc.	Exhibit 2(a) to the Company s Form S-4 Registration Statement (Registration No. 333-45305) filed with the Commission on January 30, 1998.
2.02	Agreement of Plan of Merger dated as of September 10, 1998, between the Company and American Apartment Communities II, Inc. including as exhibits thereto the proposed terms of the Series D Preferred Stock and the proposed form of Investment Agreement between the Company, United Dominion Realty, L.P., American Apartment Communities II, Inc., American Apartment Communities Operating Partnership, L.P., Schnitzer Investment Corp., AAC Management LLC and LF Strategic Realty Investors, L.P.	Exhibit 2(c) to the Company s Form S-3 Registration Statement (Registration No. 333-64281) filed with the Commission on September 25, 1998.
2.03	Partnership Interest Purchase and Exchange Agreement dated as of September 10, 1998, between the Company, United Dominion Realty, L.P., American Apartment Communities Operating Partnership, L.P., AAC Management LLC, Schnitzer Investment Corp., Fox Point Ltd. and James D. Klingbeil including as an exhibit thereto the proposed form of the Third Amended and Restated Limited Partnership Agreement of United Dominion Realty, L.P.	Exhibit 2(d) to the Company s Form S-3 Registration Statement (Registration No. 333-64281) filed with the Commission on September 25, 1998.
2.04	Agreement of Purchase and Sale dated as of August 13, 2004, by and between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	Exhibit 2.1 to the Company s Current Report on Form 8-K dated September 28, 2004 and filed with the Commission on September 29, 2004.
2.05	First Amendment to Agreement of Purchase and Sale dated as of September 29, 2004, by and	Exhibit 2.2 to the Company s Current Report on Form 8-K dated September 29, 2004 and filed

between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	with the Commission on October 5, 2004.

Exhibit	Description	Location
2.06	Second Amendment to Agreement of Purchase and Sale dated as of October 26, 2004, by and between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	Exhibit 2.3 to the Company s Current Report on Form 8-K/A dated September 29, 2004 and filed with the Commission on November 1, 2004.
3.01	Articles of Restatement.	Exhibit 3.09 to the Company s Current Report on Form 8-K dated July 27, 2005 and filed with the Commission on August 1, 2005.
3.02	Amended and Restated Bylaws (as amended through October 13, 2006).	Exhibit 3.1 to the Company s Current Report on Form 8-K dated October 13, 2006 and filed with the Commission on October 19, 2006.
4.01	Form of Common Stock Certificate.	Exhibit 4.1 to the Company s Registration Statement on Form 8-A/A dated and filed with the Commission on November 7, 2005.
4.02	Form of Certificate for Shares of 8.60% Series B Cumulative Redeemable Preferred Stock.	Exhibit I(e) to the Company s Form 8-A Registration Statement dated June 10, 1997 and filed with the Commission on June 11, 1997.
4.03	Form of Rights Certificate.	Exhibit 4(e) to the Company s Registration Statement on Form 8-A dated and filed with the Commission on February 4, 1998.
4.04	First Amended and Restated Rights Agreement dated as of September 14, 1999, between the Company and the Rights Agent.	Exhibit 4(i)(d)(A) to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
4.05	Note Purchase Agreement dated as of February 15, 1993, between the Company and CIGNA Property the Company and CIGNA Property and Casualty Insurance Company, Connecticut General Life Insurance Company, on behalf of one or more separate accounts, Insurance Company of North America, Principal Mutual Life Insurance Company and Aid Association for Lutherans.	Exhibit 6(c)(5) to the Company s Form 8-A Registration Statement dated April 19, 1990.
4.06	Senior Indenture dated as of November 1, 1995.	Exhibit 4(ii)(h)(1) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
4.07	Supplemental Indenture dated as of June 11, 2003.	Exhibit 4.03 to the Company s Current Report on Form 8-K dated June 17, 2004 and filed with the Commission on June 18, 2004.
4.08	Subordinated Indenture dated as of August 1, 1994.	Exhibit 4(i)(m) to the Company s Form S-3 Registration Statement (Registration No. 33-64725) filed with the Commission on

		November 15, 1995.
4.09	Indenture dated December 19, 2005 between the Company and SunTrust Bank, as Trustee, relating to the Company s 4.00% Convertible Senior Notes due 2035, including the form note.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated December 13, 2005 and filed with the Commission on December 19, 2005.

Table of Contents

Exhibit	Description	Location
4.10	Form of Senior Debt Security.	Exhibit 4(i)(n) to the Company s Form S-3 Registration Statement (Registration No. 33-64725) filed with the Commission on November 15, 1995.
4.11	Form of Subordinated Debt Security.	Exhibit 4(i)(o) to the Company s Form S-3 Registration Statement (Registration No. 33-55159) filed with the Commission on August 19, 1994.
4.12	Form of Fixed Rate Medium-Term Note.	Exhibit 4.01 to the Company s Current Report on Form 8-K dated May 31, 2006 and filed with the Commission on June 5, 2006.
4.13	Form of Floating Rate Medium-Term Note.	Exhibit 4.02 to the Company s Current Report on Form 8-K dated May 31, 2006 and filed with the Commission on June 5, 2006.
4.14	6.50% Notes due 2009.	Exhibit 4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
4.15	4.50% Medium-Term Notes due March 2008.	Exhibit 4.13 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002, and Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
4.16	5.13% Medium-Term Note due January 2014.	Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, and Exhibits 4.1 and 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
4.17	4.25% Medium-Term Note due January 2009.	Exhibit 4.15 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003.
4.18	4.30% Medium-Term Note due July 2007.	Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
4.19	3.90% Medium-Term Note due March 2010.	Exhibit 4.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
4.20	5.00% Medium-Term Notes due January 2012.	Exhibit 4.19 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
4.21	4.30% Medium-Term Note due July 2007.	Exhibit 4.20 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
4.22	5.25% Medium-Term Note due January 2015, issued November 1, 2004.	Exhibit 4.21 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
4.23	5.25% Medium-Term Note due January 2015, issued February 14, 2005.	Exhibit 4.22 to the Company s Annual Report on Form 10-K for the year ended December 31,

		2004.
4.24	5.25% Medium-Term Note due January 2015, issued March 8, 2005.	Exhibit 4.23 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Exhibit	Description	Location
4.25	5.25% Medium-Term Note due January 2015, issued May 3, 2005.	Exhibit 4.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
4.26	5.25% Medium-Term Note due January 2016, issued September 7, 2005.	Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.27	Registration Rights Agreement dated October 12, 2006 between the Company and the Initial Purchasers of the Company s 3.625% Convertible Senior Notes due 2011.	Exhibit 4.1 to the Company s Current Report on Form 8-K dated October 5, 2006 and filed with the Commission on October 12, 2006.
4.28	Indenture dated October 12, 2006 between the Company and U.S. Bank National Association, as Trustee, relating to the Company s 3.265% Convertible Senior Notes due 2011, including the form of note.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated October 5, 2006 and filed with the Commission on October 12, 2006.
4.29	6.05% Medium-Term Note due June 2013, issued June 7, 2006.	Exhibit 4.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.01*	1985 Stock Option Plan, as amended.	Exhibit 10(iv) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
10.02*	1991 Stock Purchase and Loan Plan.	Exhibit 10(viii) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.
10.03	Subordination Agreement dated April 16, 1998, between the Company and United Dominion Realty, L.P.	Exhibit 10(vi)(a) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
10.04	Servicing and Purchase Agreement dated as of June 24, 1999, including as an exhibit thereto the Note and Participation Agreement forms.	Exhibit 10(vii) to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
10.05*	Form of Restricted Stock Awards.	Exhibit 99.6 to the Company s Current Report on Form 8-K dated December 31, 2004 and filed with the Commission on January 11, 2005.
10.06	Description of United Dominion Realty Trust, Inc. Shareholder Value Plan.	Exhibit 10(x) to the Company s Annual Report on Form 10-K for the year ended December 31, 1999.
10.07*	Description of United Dominion Realty Trust, Inc. Executive Deferral Plan.	Exhibit 10(xi) to the Company s Annual Report on Form 10-K for the year ended December 31, 1999.
10.08*	Retirement Agreement and Covenant Not to Compete between the Company and John P. McCann dated March 20, 2001.	Exhibit 10(xv) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
10.09*	Description of Series A Out-Performance Program.	Exhibit 10(xvii) to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

10.10*	Description of Amendment to Series A Out-Performance Program.	Exhibit 10.03 to the Company s Current Report on Form 8-K dated May 3, 2005 and filed with the Commission on May 9, 2005.
10.11*	1999 Long-Term Incentive Plan (as amended and restated through February 10, 2006).	Appendix A to the Company s Definitive Proxy Statement dated March 31, 2006 and filed with the Commission on March 30, 2006.

Exhibit	Description	Location
10.12	Second Amended and Restated Agreement of Limited Partnership of Heritage Communities L.P.	Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.13	First Amendment of Second Amended and Restated Agreement of Limited Partnership of Heritage Communities L.P.	Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.14	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Heritage Communities L.P.	Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.15	Credit Agreement dated as of August 14, 2001, between the Company and certain subsidiaries and ARCS Commercial Mortgage Co., L.P., as Lender, as amended through October 5, 2006.	Filed herewith.
10.16	Credit Agreement dated as of December 12, 2001, between the Company and certain subsidiaries and ARCS Commercial Mortgage Co., L.P., as Lender, as amended through September 29, 2006.	Filed herewith.
10.17	Amended and Restated Credit Agreement dated May 25, 2005 between the Company and Wachovia Capital Markets, LLC and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, SunTrust Bank and Wells Fargo Bank, National Association, as Documentation Agents, Citicorp North America, Inc., KeyBank, N.A. and U.S. Bank National Association, as Managing Agents, and LaSalle Bank National Association, Mizuho Corporate Bank, Ltd., New York Branch and UFJ Bank Limited, New York Branch as Co-Agents, and each of the financial institutions initially signatory thereto and their assignees.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated May 25, 2005 and filed with the Commission on May 27, 2005.
10.18*	Description of Series B Out-Performance Program.	Exhibit 10.22 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003.
10.19*	Description of New Out-Performance Program.	Exhibit 10.01 to the Company s Current Report on Form 8-K dated May 3, 2005 and filed with the Commission on May 9, 2005.
10.20*	Description of Series C Out-Performance Program.	Exhibit 10.02 to the Company s Current Report on Form 8-K dated May 3, 2005 and filed with the Commission on May 9, 2005.
10.21*		

	Participation in the Series C Out-Performance Program.	Exhibit 10.07 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10.22	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004.	Exhibit 10.23 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003.
10.23	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P.	Exhibit 10.06 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Exhibit	Description	Location
10.24*	Employment Agreement of Richard A. Giannotti dated December 8, 1998.	Exhibit 10.24 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004.
10.25*	Summary of 2006 Director Compensation.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated January 3, 2006 and filed with the Commission on January 6, 2006.
10.26*	Description of the Series D Out-Performance Program.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated May 2, 2006 and filed with the Commission on May 8, 2006.
10.27*	Executive Compensation Summary.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated February 15, 2006 and filed with the Commission on February 21, 2006.
10.28*	Agreement between the Company and Thomas W. Toomey dated November 7, 2005, regarding corporate aircraft.	Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.29	Indenture dated October 12, 2006 between the Company and U.S. Bank National Association, as Trustee, including the form of note.	See Exhibit 4.28.
10.30*	Letter Agreement between the Company and Michael A. Ernst.	Exhibit 10.01 to the Company s Current Report on Form 8-K dated May 31, 2006 and filed with the Commission on June 5, 2006.
10.31*	Form of Indemnification Agreement.	Exhibit 10.3 to the Company s Current Report on Form 8-K dated May 2, 2006 and filed with the Commission on May 8, 2006.
10.32*	Form of Notice of Performance Contingent Restricted Stock Award.	Exhibit 10.2 to the Company s Current Report on Form 8-K dated May 2, 2006 and filed with the Commission on May 8, 2006.
10.33*	Separation Agreement dated November 9, 2006 between the Company and Christopher D. Genry.	Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.34*	Summary of 2007 Director Compensation.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated December 7, 2006 and filed with the Commission on December 12, 2006.
10.35	Senior Indenture dated as of November 1, 1995, as supplemented by Supplemental Indenture dated as of June 11, 2003.	See Exhibits 4.06 and 4.07.
10.36	Indenture dated December 19, 2005 between the Company and SunTrust Bank, as Trustee, including form of note.	See Exhibit 4.09.
10.37*	Notice of Performance Contingent Restricted Stock Award, including Restricted Stock Award Agreement for 2,350 Shares, for Mark M. Culwell, Jr.	Exhibit 10.1 to the Company s Current Report on Form 8-K dated June 21, 2006 and filed with the Commission on June 23, 2006.
10.38*	Restricted Stock Award Agreement for 7,418 Shares for Mark M. Culwell, Jr.	Exhibit 10.2 to the Company s Current Report on Form 8-K dated June 21, 2006 and filed with the Commission on June 23, 2006.

10.39*	Restricted Stock Award Agreement for 37,092 Shares for Mark M. Culwell, Jr.	Exhibit 10.3 to the Company s Current Report on Form 8-K dated June 21, 2006 and filed with the Commission on June 23, 2006.

Table of Contents

Exhibit	Description	Location
10.40	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P.	Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.
10.41	Amended and Restated Master Credit Facility Agreement dated June 24, 2002 between the Company and Green Park Financial Limited Partnership, as amended through February 14, 2007.	Filed herewith.
12	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
21	Subsidiaries.	Filed herewith.
23	Consent of Independent Registered Public Accounting Firm.	Filed herewith.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.	Filed herewith.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.	Filed herewith.
32.1	Section 1350 Certification of the Chief Executive Officer.	Filed herewith.
32.2	Section 1350 Certification of the Chief Financial Officer.	Filed herewith.