UNITED DOMINION REALTY TRUST INC
Form DEF 14A
April 01, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨	Preliminary Proxy Statement	¨	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement		
¨	Definitive Additional Materials		
¨	Soliciting Material Pursuant to §240.14a-12		

UNITED DOMINION REALTY TRUST, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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April 4, 2003

Dear Fellow Shareholders:

Please accept my personal invitation to attend our Annual Meeting of Shareholders to be held on Tuesday, May 6, 2003, at 4:00 p.m. local time at The Jefferson Hotel, 101 West Franklin Street, Richmond, Virginia.

The formal business to be conducted at the meeting is described in the notice that follows this letter. In addition to the election of directors and the ratification of the selection of our independent auditors, we are asking you to consider and vote upon a proposal to change the company s state of incorporation from Virginia to Maryland and to approve the Series B Out-Performance Program. We will also review 2002, report on recent financial results and discuss expectations for the future, and we will be available to answer your questions during the meeting and afterward.

We rely upon all shareholders to execute and return their proxies promptly in order to avoid costly proxy solicitation. You may also vote your shares electronically through the Internet or by telephone. This will eliminate the need to return your proxy card. Instructions for Internet and telephone voting are on your proxy card. If you attend the Annual Meeting of Shareholders, you may withdraw your proxy at the meeting and vote your shares in person from the floor. Your vote is important to us.

I look forward to seeing you on May 6, 2003, at 4:00 p.m.

Sincerely,

UNITED DOMINION REALTY TRUST, INC.

Robert C. Larson

Chairman of the Board of Directors

United Dominion Realty Trust, Inc.

Corporate Office: 400 East Cary Street, Richmond, Virginia 23219-3816

Tel: 804.780.2691 Fax: 804.343.1912

Principal Executive Office: 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129-1540

Tel: 720.283.6120 Fax: 720.283.2452

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April 4, 2003

Notice of Annual Meeting of Shareholders

To Be Held On Tuesday, May 6, 2003 at 4:00 p.m.

The Annual Meeting of Shareholders of United Dominion Realty Trust, Inc. will be held at The Jefferson Hotel, 101 West Franklin Street, Richmond, Virginia, on Tuesday, May 6, 2003, at 4:00 p.m. local time, for the following purposes:

1. To elect ten directors to serve for the ensuing year.

2. To consider and vote upon a proposal to change our state of incorporation from Virginia to Maryland.

3. To consider and vote upon a proposal to approve the Series B Out-Performance Program.

4. To ratify the selection of Ernst & Young LLP to serve as independent auditors for the year ending December 31, 2003.

5. To transact such other business as may properly come before the meeting or any adjournments of the meeting.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. Shareholders who owned shares of our common stock at the close of business on March 24, 2003 are entitled to notice of, and to vote at, the meeting.

All shareholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote your shares as soon as possible.

By Order of the Board of Directors

Mary Ellen Norwood

Corporate Secretary

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the annual meeting. Most shareholders have three options for submitting their vote: (1) via the Internet at www.eproxy.com/udr, (2) by phone (please see your proxy card for instructions), and (3) by mail, using the paper proxy card.

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Proxy Statement

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of the board of directors of United Dominion Realty Trust, Inc., a Virginia corporation, for use at our Annual Meeting of Shareholders to be held on May 6, 2003, and at any adjournment, continuation or postponement of the meeting.

We use a number of abbreviations in this proxy statement. We refer to the company as United Dominion, the company, we, us or our. The te proxy solicitation materials includes this proxy statement, as well as the enclosed proxy card. References to fiscal 2002 mean our 2002 fiscal year which began on January 1, 2002 and ended on December 31, 2002. Our 2003 Annual Meeting of Shareholders to be held on May 6, 2003 is simply referred to as the annual meeting or the meeting.

Our corporate office is located at 400 East Cary Street, Richmond, Virginia 23219-3816. Our corporate office telephone number is 804.780.2691. Our principal executive office is located at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129-1540. Our principal executive office telephone number is 720.283.6120.

These proxy solicitation materials are being mailed on or about April 4, 2003 to all shareholders entitled to vote at the annual meeting.

Record Date and Shares Outstanding

Shareholders who owned shares of our common stock at the close of business on March 24, 2003, referred to in this proxy statement as the record date, are entitled to notice of, and to vote at, the annual meeting. At the record date, we had 108,827,959 shares of common stock issued and outstanding.

Revoking Your Proxy

You may revoke your proxy at any time prior to the date of the annual meeting by: (1) submitting a later-dated vote, in person at the annual meeting, via the Internet, by telephone or by mail, or (2) delivering instructions to the attention of the Corporate Secretary at United Dominion s corporate office, 400 East Cary Street, Richmond, Virginia 23219-3816. Any notice of revocation sent to us must include the shareholder s name and must be received prior to the meeting to be effective.

How Your Proxy Will Be Voted

All shares represented by properly executed proxies received in time for the meeting will be voted at the meeting in accordance with the instructions marked thereon or otherwise as provided therein, unless such proxies have previously been revoked. Unless instructions to the contrary are marked, or if no instructions are specified, shares represented by proxies will be voted:

FOR the election of all nominees for director,

FOR the proposal to reincorporate in Maryland,

FOR the proposal to approve the Series B Out-Performance Program, and

FOR the ratification of the selection of Ernst & Young LLP as independent auditors for the calendar year ending December 31, 2003.

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In addition, if any other matters properly come before the annual meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as directed by the board of directors. We have not received notice of any other matters that may properly be presented at the annual meeting.

Quorum

Each share of common stock outstanding on the record date is entitled to one vote. Cumulative voting is not permitted. A quorum, which is a majority of the outstanding shares as of the record date, must be present in order to hold the meeting and to conduct business. Your shares will be counted as being present at the meeting if you appear in person at the meeting, if you vote your shares by telephone or over the Internet, or if you submit a properly executed proxy card. Votes against a particular proposal will be counted both to determine the presence or absence of a quorum and to determine whether the requisite number of voting shares has been obtained.

Voting

Tabulation

If a quorum is present, (1) the affirmative vote of a plurality of the shares of common stock voting at the annual meeting is required to elect directors, (2) the affirmative vote of more than two-thirds of the shares of the common stock entitled to vote at the annual meeting is required to approve the proposal to reincorporate in Maryland, (3) the affirmative vote of a majority of the shares of common stock voting at the annual meeting is required to approve the Series B Out-Performance Program, and (4) the affirmative vote of a majority of the shares of common stock voting at the annual meeting is required to ratify the appointment of Ernst & Young LLP as our independent accountants for this fiscal year.

Our transfer agent will tabulate votes cast by proxy by an automated system. Votes cast by proxy or in person at the meeting will be counted by the persons appointed by us to act as election inspectors for the meeting. Abstentions, broker non-votes, which are explained below, and shares as to which authority to vote on any proposal is withheld, are each included in the determination of the number of shares present and voting at the meeting for purposes of obtaining a quorum. Each will be tabulated separately.

Abstentions, Broker Non-Votes

In the absence of controlling precedent to the contrary, we intend to treat abstentions and broker non-votes in the following manner. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have the discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Broker non-votes and shares as to which proxy authority has been withheld with respect to any matter are not deemed to be entitled to vote for purposes of determining whether shareholder approval of that matter has been obtained. As a result, broker non-votes are not included in the tabulation of the voting results on the election of directors or issues requiring the approval of a majority of the shares of common stock present and entitled to vote and, therefore, do not have the effect of votes in opposition for such proposals. With respect to Proposal No. 1 requiring a plurality vote and Proposal No. 3 and No. 4 requiring the affirmative vote of a majority of the common stock, present and entitled to vote, broker non-votes have no effect. With respect to Proposal No. 2 requiring more than two-thirds of the votes entitled be cast at the meeting, broker non-votes have the same effect

as a vote against the proposal. Because abstentions will be included in tabulations of the shares of common stock entitled to vote for purposes of determining whether a proposal has been approved, abstentions have the same effect as a negative vote on Proposal Nos. 2, 3 and 4.

Solicitation of Proxies

This solicitation is being made by mail on behalf of our board of directors, but may also be made without additional remuneration by our officers or employees by telephone, telegraph, facsimile transmission, e-mail or

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personal interview. We will bear the expense of the preparation, printing and mailing of the enclosed form of proxy, notice of annual meeting and this proxy statement and any additional material relating to the meeting that may be furnished to our shareholders by our board subsequent to the furnishing of this proxy statement. We will reimburse banks and brokers who hold shares in their name or custody, or in the name of nominees for others, for their out-of-pocket expenses incurred in forwarding copies of the proxy materials to those persons for whom they hold such shares. To obtain the necessary representation of shareholders at the meeting, supplementary solicitations may be made by mail, telephone or interview by our officers or employees, without additional compensation, or selected securities dealers. In addition, we have retained Morrow & Co., Inc. to solicit proxies from shareholders by mail, in person, by e-mail and by telephone. We will pay Morrow & Co., Inc. a fee of $10,000 for its services, plus reimbursement of reasonable out-of-pocket expenses incurred in connection with the proxy solicitation.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our board of directors is comprised of ten members, all of whom are to be elected at the annual meeting. The board of directors has nominated the persons named below for election as directors at the annual meeting. Unless otherwise directed, the proxy holders will vote the proxies received by them for the ten nominees named below. If any of the nominees is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee who is designated by the present board of directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. The directors elected will hold office until the next annual meeting of shareholders or until their successors are elected and qualified.

The names of the nominees and certain information about them are set forth below.

Name of Nominee	Age	Position(s) With United Dominion	Director Since
Robert P. Freeman	58	Director	1998
Jon A. Grove	58	Director	1998
James D. Klingbeil	67	Vice Chairman of the Board	1998
Robert C. Larson	68	Chairman of the Board	2000
John P. McCann	58	Director and Chairman Emeritus	1978
Thomas R. Oliver	54	Director Nominee	N/A
Lynne B. Sagalyn	55	Director	1996
Mark J. Sandler	61	Director	1996
Robert W. Scharar	54	Director	1996
Thomas W. Toomey	42	Chief Executive Officer, President and Director	2001

There is no family relationship between any of our directors or executive officers.

Robert P. Freeman has served as President of Landfall Capital LLC, New York, New York, a private real estate merchant bank since 2001. Previously, Mr. Freeman was a Managing Director of Wells Hill Partners, Ltd., New York, New York, a real estate investment banking firm, from 1999-2001 and a Managing Director of Lazard Frères & Co. LLC, a private investment bank, and President of Lazard Frères Real Estate Investors, L.L.C., or LFREI, a real estate investment company, from 1992 to 1999. Mr. Freeman is active in and serves as a director of numerous private companies and charitable organizations.

Jon A. Grove was the Chairman of the Board of Directors, President and Chief Executive Officer of ASR Investments Corporation since its organization in 1987 until our acquisition of ASR in 1998. He is also a director of American Southwest Holdings, Inc., in Phoenix, Arizona.

James D. Klingbeil is Vice Chairman of the Board of Directors and has been the Chairman and Chief Executive Officer of American Apartment Communities III, or AAC III, a privately owned REIT based in San Francisco, California, since 1997. He was Chairman and Chief Executive Officer of American Apartment Communities II, or AAC II, from 1995 until our merger with AAC II in December of 1998. He is also Chairman and CEO of Klingbeil Capital Management, The Klingbeil Company and Khempco Building Supply Company. He is a director of Broad Street Financial and numerous private companies.

Robert C. Larson has been Chairman of the Board of Directors since March of 2001. He has served as a managing director of Lazard Frères & Co. LLC, a private investment bank, and chairman of Lazard Frères Real Estate Investors, LLC, a real estate investment company, since 1999. He is also chairman of Larson Realty Group, a privately owned, Detroit-based company engaged in real estate investment, development, management, leasing and consulting. Mr. Larson was chairman of the Taubman Realty Group from 1990 to 1998 and vice chairman and a director of Taubman Centers, Inc. until his retirement in May 2000. He currently serves as a director of Six Continents PLC, Brandywine Realty Trust and ARV Assisted Living Inc. In addition, Mr. Larson represents Lazard as a director of Destination Europe Limited and Commonwealth Atlantic Properties, Inc. and as a member of the Partnership Committee of DP Operating Partnership, L.P.

John P. McCann is Chairman Emeritus and was Chairman of the Board of Directors from January 1997 until March 2001. He served as our Chief Executive Officer from 1974 to February 2001 and President from 1974 to December 1998. Since 2001, he has been a private investor. He currently serves as a director of LandAmerica Financial Group, Inc., Richmond, Virginia, and Executive Director of New Town Associates, LLC, Williamsburg, Virginia since June 2002 and he was a director of Storage USA, Inc., a self storage REIT headquartered in Memphis, Tennessee until its sale in April 2002.

Thomas R. Oliver was Chairman of Six Continents Hotels, Inc. from 2002 until his retirement on March 31, 2003. From 1997 to October 2002 he also served as Chief Executive Officer of Six Continents Hotels. From 1996 to 1997 he was Chief Executive Officer of AudioFax, Inc. and from 1993 to 1996 he was Chief Executive Officer of VoiceCom Systems, Inc. From 1991 to 1993 Mr. Oliver served as Chief Operating Officer and Executive Vice President of Worldwide Customer Operations for FedEx. At FedEx he led the development and launch of the FedEx letter packaging concept, and created and led the quality process that enabled FedEx to become the first American service company to win the United States Malcolm Baldridge National Quality Award. Mr. Oliver received a B.S. in Economics in 1963 at the University of Pennsylvania. He currently serves as a member of the Board of Counselors for the Carter Center, and is a director of Interface, Inc., the world s largest manufacturer and marketer of carpet tiles.

Lynne B. Sagalyn, Ph.D. is the Earle W. Kazis and Benjamin Schore Director of the M.B.A. Real Estate Program and director of the Paul Milstein Center for Real Estate at Columbia University s Graduate School of Business and has been a professor in its Finance and Economics Division since 1992. From 1991 to 1992, she was a visiting professor at Columbia University. From 1987 to 1991, she was an associate professor of Planning and Real Estate Development at Massachusetts Institute of Technology. Dr. Sagalyn is a trustee and chair of the Audit Committee of Capital Trust, a public real estate investment trust that specializes in real estate lending, a director of J. P. Morgan U.S. Real Estate Income and Growth Fund, a member of the Advisory Board of Goldman Family Enterprises and a director of The Retail Initiative.

Mark J. Sandler was a Senior Managing Director of Bear, Stearns & Co., Inc., an investment banking firm, in charge of its real estate operations until his retirement in October 1988. Since that time, Mr. Sandler has managed his personal and family investments. Mr. Sandler was a director of South West Property Trust Inc. at the time we acquired South West in 1996.

Robert W. Scharar is President and a director of FCA Corp., a registered investment advisor, which he founded in 1983. He also serves as a trustee of First Commonwealth Mortgage Trust, Holly Mortgage Trust and Ivy Realty Trust, all of which are REITs advised by FCA Corp. He is

also a director of Commonwealth International Series Trust, a mutual fund group, and is the past President and a current director of the American

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Association of Attorneys-CPAs. Mr. Scharar was a director of South West Property Trust Inc. at the time we acquired South West in 1996.

Thomas W. Toomey has been our Chief Executive Officer and President since February 2001. Prior to joining us, Mr. Toomey was with Apartment Investment and Management Company, or AIMCO, a publicly traded real estate investment trust, where he served as Chief Operating Officer for two years and Chief Financial Officer for four years. During his tenure at AIMCO, Mr. Toomey was instrumental in the growth of AIMCO from 34,000 apartment units to 360,000 units. He has also served as a Senior Vice President at Lincoln Property Company, a national real estate development, property management and real estate consulting company, from 1990 to 1995 and as an Audit Manager serving real estate clients at Arthur Andersen & Co. Mr. Toomey received a B.S. in Business Administration/Finance in 1982 at Oregon State University.

Vote Required and Board of Directors Recommendation

The ten nominees receiving the highest number of affirmative votes of the shares voted at the meeting shall be elected as directors.

Our board of directors recommends that the shareholders vote FOR the director nominees listed above.

Board of Directors and Committee Meetings

The board of directors held ten meetings (including six telephonic meetings) during fiscal 2002. The board of directors has standing audit, compensation and executive committees, and a corporate governance committee that serves as our nominating committee.

Audit Committee

The members of the audit committee are Lynne B. Sagalyn (Chair), Robert P. Freeman and Robert W. Scharar. The audit committee assists the board of directors in its general oversight of our financial reporting, internal controls and audit functions. During 2002, the audit committee held eight meetings. Additional information regarding the audit committee and its members is contained in the Audit Committee Report beginning on page 17 of this proxy statement.

Compensation Committee

The members of the compensation committee are James D. Klingbeil (Chair) and Jon A. Grove. The compensation committee met three times in 2002. The compensation committee is responsible for administering and approving all elements of compensation for key senior management positions and also reviews and ensures the appropriate administration of our compensation and benefit plans, programs and policies. More specifically, among other things, the committee sets the compensation of the Chief Executive Officer and also sets annual objectives for, and evaluates the performance of, the Chief Executive Officer, with input from the full board of directors. The compensation committee also

approves the compensation of the employees who report directly to the Chief Executive Officer and approves all employment agreements. In addition, the compensation committee also develops and administers the contributions and awards, if any, under the 401(k) and profit sharing plans and management incentive programs, and other management compensation, if any, including the stock purchase plan, the long-term incentive plan, and our out-performance program.

Corporate Governance Committee

The members of the corporate governance committee are Mark J. Sandler (Chair) and R. Toms Dalton, Jr. (Mr. Dalton will retire from our board upon the expiration of his term at our upcoming meeting of shareholders.) The corporate governance committee met three times in 2002. The corporate governance committee exercises general oversight of board governance matters, reviews the role, composition and structure of our board of

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directors and its committees, reviews and evaluates the board and its members, serves as the nominating committee for board members and reviews and updates our Statement on Corporate Governance.

The corporate governance committee considers director nominees proposed by shareholders. Any shareholder who wants to recommend a prospective nominee for consideration may do so by giving the candidate s name and qualifications in writing to our Corporate Secretary at our corporate office, 400 East Cary Street, Richmond, Virginia 23219-3816 no later than December 31, 2003.

Executive Committee

The members of the executive committee are Robert C. Larson (Chair), James D. Klingbeil and Thomas W. Toomey. The executive committee met one time in 2002. The executive committee performs the duties and exercises the powers delegated to it by the board of directors. The executive committee meets only when board action on a significant matter is required and it is impractical or not feasible to convene a full meeting of the board.

Compensation of Directors

In 2002 each non-employee director received an annual retainer fee of $17,500 ($27,500 for a non-employee chairman of the board of directors). Each non-employee director may elect to apply all or any portion of the annual retainer fee to the receipt of stock options, which options vest quarterly and are typically priced at the closing sale price of our common stock on the first business day of the calendar year. In addition, each non-employee director receives $1,000 for each regular meeting attended and $300 for each telephone meeting attended. Committee chairpersons receive additional annual compensation of $3,000. Additional meeting fees are paid for committee meetings held outside of the normal board schedule in the amount of $300 for each telephone meeting, and $500 for each in person meeting, or $500 per day if a meeting lasts beyond one day.

Each non-employee director also receives an annual grant of restricted stock upon re-election. These shares have a one-year vesting period and are priced at the closing sale price of our common stock on the grant date. The number of shares that will vest at the end of the one-year period will vary in amount based upon our performance during such period as follows:

Number of Shares	Threshold Performance for Expiration of Restrictions
0	Total shareholder return is less than 12%.
2,000	Total shareholder return is between 12% and 15%.
3,000	Total shareholder return is between 15% and 20%.
5,000	Total shareholder return exceeds 20%.

Directors are entitled to dividends during the vesting period; however, any unvested shares at the end of the one-year vesting period will be returned to us and cancelled. In 2002, each non-employee director received a grant of 5,000 shares of restricted stock.

In February 2003, our board of directors voted to terminate our policy that provides any non-employee director retiring from the board after at least 20 years of service with $5,000 per year for the 5 years following retirement. However, the policy will still apply to Mr. Dalton, who will retire from our board upon the expiration of his term at our upcoming meeting of shareholders.

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Compensation of Executive Officers

Summary Compensation Table

The following table summarizes the total compensation of our Chief Executive Officer last year and our four other most highly compensated executive officers in fiscal 2002 and, where applicable, the total compensation earned by each such individual for our previous fiscal year. Each of these named executive officers joined United Dominion in 2001.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Securities Underlying Options**	**All Other Compensation**
Thomas W. Toomey	2002	$ 250,000	$ 1,100,000(2)		
Chief Executive Officer and President	2001	223,229(1)	1,000,000(3)	320,000	
W. Mark Wallis	2002	$ 225,000	$ 575,000(2)		
Senior Executive Vice President	2001	170,604(1)	560,000	300,000	$ 46,720(5)
Ella S. Neyland	2002	$ 200,000	$ 650,000(2)		$ 1,000(4)
Executive Vice President and Treasurer	2001	151,648(1)	495,000	175,000	125,679(5)
Christopher D. Genry	2002	$ 200,000	$ 550,000(2)		$ 1,000(4)
Executive Vice President and Chief Financial Officer	2001	151,648(1)	200,000	175,000	83,750(5)
Kevin M. McCabe	2002	$ 185,000	$ 350,000(2)		
Senior Vice President	2001	86,909(1)	260,000(3)	50,000	$ 45,000(5)

(1) This reflects salaries paid between February 12, 2001 and December 31, 2001 for Mr. Toomey, April 2, 2001 and December 31, 2001 for Messrs. Wallis and Genry, and Ms. Neyland, and July 16, 2001 and December 31, 2001 for Mr. McCabe.

(2) Mr. Toomey received $800,000, Mr. Wallis received $75,000, Ms. Neyland received $100,000, Mr. Genry received $100,000 and Mr. McCabe received $100,000 of their 2002 bonus in the form of a grant of 51,387, 4,817, 6,423, 6,423, and 6,423 shares, respectively, of restricted stock at the average sales price for the period commencing on February 3, 2003 and ending on February 18, 2003 of $15.57 per share on the date of grant. Mr. Toomey s shares vest on February 4, 2006. The other named executive officers shares vest on February 4, 2005. Distributions are paid on the restricted common shares at the same rate as on unrestricted common shares.

(3)

On February 8, 2002, Mr. Toomey received $1,000,000 and Mr. McCabe received $100,000 of their 2001 bonus in the form of a grant of 70,225 and 7,023 shares, respectively, of restricted stock at the closing sales price of $14.24 per share on the date of grant. These shares vest on February 7, 2005. Distributions are paid on the restricted common shares at the same rate as on unrestricted common shares.

(4) Represents $1,000 non-discretionary 401(k) matching contributions made by us under our Profit Sharing Plan.

(5) Represents employee commitments and relocation costs for Mr. Wallis, Ms. Neyland, Mr. Genry, and Mr. McCabe of $46,720, $125,679, $82,750, and $45,000, respectively, and includes $1,000 non-discretionary 401(k) matching contributions made by us under our Profit Sharing Plan for Mr. Genry.

The foregoing compensation table does not include certain fringe benefits made available on a non-discriminatory basis to all of our employees such as group health insurance, dental insurance, long-term

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disability insurance, vacation and sick leave. In addition, we may make available certain non-monetary benefits to our executive officers with a view to acquiring and retaining qualified personnel and facilitating job performance. We consider such benefits to be ordinary and incidental business costs and expenses. We also did not include in the table the aggregate value of such benefits in the case of the executive officers, which cannot be precisely ascertained but which is the lesser of either (a) 10% of the salary and bonus paid to each such executive officer or to the group, respectively, or (b) $50,000 or $50,000 times the number of individuals in the group, as the case may be.

Option Grants Table

A total of 129,150 stock options were granted during 2002, but no stock options were granted to the named executive officers during the 2002 fiscal year.

Aggregated Option Exercises and Fiscal Year-End Option Values

None of the named executive officers exercised stock options during the 2002 fiscal year. The following table provides information regarding the number of securities underlying unexercised options and the value of unexercised options for each of the named executive officers at the end of the 2002 fiscal year.

Aggregate Option Exercises in 2002 and

2002 Year End Option Value

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options At Fiscal Year End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Thomas W. Toomey	0	$ 0	213,333	106,667	$ 1,111,465	$ 555,735
W. Mark Wallis	0	$ 0	100,000	200,000	$ 413,000	$ 826,000
Christopher D. Genry	0	$ 0	58,334	116,666	$ 240,919	$ 481,831
Ella S. Neyland	0	$ 0	58,334	116,666	$ 240,919	$ 481,831
Kevin M. McCabe	0	$ 0	16,667	33,333	$ 40,001	$ 79,999

(1) These values are calculated based on the difference between the exercise price(s) and the fair market value of the stock, as determined by reference to the closing sales prices on the NYSE as of the exercise date(s) or December 31, 2002, as appropriate.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the shares of our common stock beneficially owned by (1) each of our directors (including the director nominees), (2) our Chief Executive Officer and the four other most highly paid officers, (3) all of our directors and executive officers as a group, and (4) all persons known by us to beneficially own more than 5% of our outstanding stock. Except as otherwise indicated in the accompanying footnotes, beneficial ownership is shown as of February 28, 2003.

	Amount and Nature of Beneficial Ownership		Total Beneficial Ownership	
Name of Beneficial Owner	Shares Beneficially Owned(1)	Shares For Which Beneficial Ownership Can Be Acquired Within 60 Days(2)	Number of Shares(2)	Percent of Class(3)
John P. McCann(4)	577,249	682,564	1,259,813	1.15%
Thomas W. Toomey	388,612	213,333	601,945	*
Jon A. Grove	256,452	316,331	572,783	*
W. Mark Wallis	44,635	200,000	244,635	*
Mark J. Sandler(5)	163,090	56,448	219,538	*
R. Toms Dalton, Jr.(6)	123,828	77,679	201,507	*
Christopher D. Genry	81,423	116,667	198,090	*
Ella S. Neyland	81,423	116,667	198,090	*
Robert W. Scharar	87,517	41,400	128,917	*
James D. Klingbeil(7)	54,345	71,679	126,024	*
Robert P. Freeman	54,345	56,631	110,976	*
Lynne B. Sagalyn(8)	32,800	59,943	92,743	*
Kevin M. McCabe	28,446	16,667	45,113	*
Robert C. Larson(9)	5,000	19,231	24,231	*
Thomas R. Oliver(10)				*
All directors and executive officers as a group (25 persons)	2,232,550	2,500,992	4,733,542	4.25%
Security Capital Preferred Growth Incorporated 11 South LaSalle Street, Second Floor Chicago, Illinois 60603		12,307,692	12,307,692	10.16%
Deutsche Bank AG (11) Taunusanlage 12, D-60325 Frankfurt am Main Federal Republic of Germany	6,357,672		6,357,672	5.84%

* Represents beneficial ownership of less than 1%, based on 108,789,459 shares of common stock outstanding at the close of business on February 28, 2003.

(1) Shares are considered beneficially owned, for purposes of this table, only if held by the person indicated, or if such person, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares the power to vote, to direct the voting of and/or to dispose of or to direct the disposition of such security.

(2) Assumes exercise in full of all options exercisable within 60 days of February 28, 2003, by our directors and executive officers and the conversion of all 8,000,000 shares of our outstanding Series D preferred stock held by Security Capital Preferred Growth Incorporated.

Each share of Series D preferred stock is currently convertible into 1.5385 shares of our common stock. For Mr. Grove, this also includes 261,052 shares beneficially held in ASR Investments Corporation Key Executive Share Option Plan.

(3) Based on 108,789,459 shares of common stock outstanding at the close of business on February 28, 2003. Shares issuable pursuant to options which are exercisable within 60 days of February 28, 2003, or upon conversion of our Series D preferred stock, are deemed outstanding for computing the percentage of the person holding such options or shares, but are not deemed outstanding for computing the percentage of any other person.

(4) Includes 39,500 shares owned by Planned Property Realty Corp., of which Mr. McCann is President and sole shareholder.
(5) Includes 28,000 shares indirectly held in a trust for Mr. Sandler s children and 24,045 shares in our Dividend Reinvestment and Stock Purchase Plan.
(6) Includes 2,456 and 2,732 shares indirectly held by Mr. Dalton and his wife, respectively, in Individual Retirement Accounts.
(7) Mr. Klingbeil is deemed to indirectly beneficially own 1,920,372 operating partnership units, directly owned by certain limited partnerships and limited liability companies. The holder of the operating partnership units has the right to require the Operating Partnership to redeem all or a portion of the operating partnership units held by the holder in exchange for a cash payment per operating partnership unit equal to the market value of a share of our common stock at the time of redemption. However, the Operating Partnership s obligation to pay the cash amount is subject to the prior right of the company to acquire such operating partnership units in exchange for either cash or an equal number of shares of our common stock.
(8) Includes 1,300 shares of common stock held by Dr. Sagalyn s husband and 500 shares of common stock jointly owned by Dr. Sagalyn and her daughter, which shares Dr. Sagalyn may be deemed the beneficial owner of as a result of her shared power to vote and dispose of such shares. Dr. Sagalyn disclaims any beneficial ownership interest in such shares.
(9) American Apartment Communities III, L.P. (AAC III) beneficially owns 586,766 operating partnership units in the Operating Partnership. Lazard Freres Real Estate Investors LLC (LFREI) is the general partner of three investment funds that own 100% of the equity interests in AAC III. Lazard Freres & Co. LLC (Lazard) is the managing member of LFREI. LFREI as the general partner of the funds and Lazard as the managing member of LFREI may be deemed the indirect beneficial owners of the units held by AAC III. Mr. Larson, who joined Lazard in August 1999, is a Managing Director of Lazard, the Chairman and Managing Principal of LFREI, and may be deemed to indirectly beneficially own all of the units deemed indirectly beneficially owned by Lazard and LFREI. Mr. Larson disclaims any beneficial ownership of any units except for any pecuniary interest he possesses by virtue of his officer positions with Lazard or LFREI**.**
(10) Mr. Oliver has been nominated for election as director at the annual meeting, but he is not currently a member of our board of directors.

(11) Beneficial ownership is as of December 31, 2002, as reflected in a statement on Schedule 13G filed by Deutsche Bank AG with the Securities and Exchange Commission on February 6, 2003. Based on information contained in the Schedule 13G, the shares listed in the table above reflect shares deemed to be beneficially owned by the following subsidiaries of Deutsche Bank AG: RREEF America, L.L.C. (sole voting power and sole dispositive power with respect to 5,758,016 shares); Deutsche Investment Management Americas, Inc. (sole voting power and shared dispositive power with respect to 494,861 shares); and Deutsche Bank Trust Company Americas (sole voting power with respect to 104,795 shares and sole dispositive power with respect to 60,948 shares).

Agreements with Executive Officers

Change-in-Control Arrangements

Under our Series A Out-Performance Program, the valuation period for the performance units is accelerated to and ends on the date a change of control occurs. If the performance criteria under the program are satisfied as of such date, the holders of the performance units would have the right to cause the Operating Partnership to redeem the performance units for cash in an amount equal to the price per share of our common stock on the date of such redemption, subject to our right to acquire the performance units in exchange for an equal number of shares of our common stock. The Series A Out-Performance Program is described in more detail under the heading Series A Out-Performance Program below.

Under the provisions of our 1999 Long-Term Incentive Plan, all outstanding options, stock appreciation rights and other awards that may be exercised generally become fully exercisable and all restrictions on

outstanding awards will lapse upon the occurrence of a change of control unless otherwise provided in the award agreement. Each of the named executive officers has received an award under the 1999 Long-Term Incentive Plan.

Equity Compensation Plan Information

The following table provides information about shares of our common stock that we may issue upon the exercise of options, warrants and rights under our existing equity compensation plans. All information is provided as of December 31, 2002.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by the security holders(1)	3,652,931	$ 12.01	3,149,350
Equity compensation plans not approved by security holders	0	0	0
Total	3,652,931	$ 12.01	3,149,350

(1) On May 8, 2001, our shareholders approved the 1999 Long-Term Incentive Plan, which supercedes the 1985 Stock Option Plan, as amended. The plan is designed to be an omnibus plan that allows the board of directors or committee thereof to grant a wide range of compensatory awards including options to purchase shares of common stock, stock appreciation rights, restricted stock, performance units, dividend equivalents, other stock-based awards or any other right relating to common stock or cash. The maximum number of shares of common stock issuable under the plan may not exceed 4,000,000 shares, in the aggregate. Of the 4,000,000 shares reserved, 3,400,000 shares are for stock-based awards, such as stock options, with the remaining 600,000 shares reserved for restricted stock awards. The plan 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 10 years. Shares under options that expire or are cancelable are available for subsequent grant.

Eligibility. Officers, directors and employees of us or any of our subsidiaries, as determined by the board or committee thereof, are eligible to receive benefits under the plan.

SARs. Stock appreciation rights, or SARs, granted under the plan provide the holder the right to receive the difference between the market value of our common stock on the date of exercise and the grant price per share of the SAR.

Restricted Shares. An award of restricted shares involves the immediate transfer of shares of our common stock to a participant subject to such performance criteria and payment terms as are determined by the board or committee thereof in its discretion.

Dividend Equivalents. An award of dividend equivalents shall entitle the participant to receive payments equal to dividends with respect to all or a portion of the number of shares of common stock subject to an award, as determined by the board or committee thereof. The dividend equivalents may be paid or distributed when accrued or be deemed to have been reinvested in additional shares of common stock.

Other Stock-Based Awards. The board or committee thereof may grant such other awards that are payable in shares of common stock.

Series A Out-Performance Program

United Dominion Realty, L.P., a limited partnership in which we serve as the sole general partner, has outstanding an aggregate of 1,270,000 of its Class I Out-Performance Partnership Shares that it sold to UDR Out-

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Performance I, LLC. UDR Out-Performance I, LLC then sold a total of 1,270,000 performance units in UDR Out-Performance I, LLC to our senior management and other key employees at a cash price of $1.00 per performance unit. UDR Out-Performance I, LLC is a limited liability company formed and owned by the holders of the performance units and governed by a management committee consisting of Messrs. Klingbeil, Larson, Toomey and Wallis.

The outstanding performance units were sold to our Chief Executive Officer and our four other most highly compensated executive officers in fiscal 2002, as set forth below, in accordance with our Series A Out-Performance Program.

Name	Number of Units	Percentage of Units Awarded
Thomas W. Toomey	421,000	34.00%
W. Mark Wallis	190,500	15.39%
Christopher D. Genry	127,000	10.26%
Ella S. Neyland	127,000	10.26%
Kevin M. McCabe	40,000	3.23%

Since 2001, UDR Out-Performance I, LLC has repurchased a total of 171,000 performance units from members of UDR Out-Performance I, LLC whose employment with the company terminated and re-sold 139,000 of those performance units to the company s senior management and other key employees. Of the 139,000 performance units which were re-sold, 26,000 performance units were re-sold in 2002 at a cash price of $3.19 per performance unit.

CERTAIN BUSINESS RELATIONSHIPS

Indebtedness of Management to the Company

Our executive officers listed in the table below are indebted to us for shares of common stock they purchased pursuant to the Stock Purchase and Loan Plan. The table indicates the largest amount of the indebtedness outstanding during fiscal year 2002 and the amount outstanding as of January 31, 2003. As provided in the Stock Purchase and Loan Plan, such indebtedness bears interest at 7% per annum. The table does not include indebtedness of our executive officers and directors to SunTrust Bank as of January 31, 2003, in the aggregate amount of $11,011,247, which we may be obligated to purchase upon the occurrence of certain events.

	Maximum Indebtedness During 2002	Indebtedness at January 31, 2003
John P. McCann	$ 1,461,922	$ 1,394,230
Richard A. Giannotti	543,719	282,008
Scott A. Shanaberger	72,668	72,132
Thomas J. Corcoran	72,649	72,112
Patrick S. Gregory	72,649	72,112

Other non-executive officers	606,210	373,453
Former employees(1)	1,554,855	338,270
Total	$ 4,384,672	$ 2,604,317

(1) Amounts owed by former employees are due as set forth in the promissory note between the company and each of the former employees. The last outstanding note matures on October 16, 2005.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Our compensation committee is responsible for developing and administering compensation programs for (1) executive officers, including base salaries, annual incentives and long-term incentive plans and (2) long-term incentive compensation plans for all associates.

Compensation Design and Philosophy

Our compensation programs are designed to further our primary goal of increasing dividend income and share price appreciation by providing economic motivation to our executive officers and other key employees. More specifically, our compensation program seeks to:

- provide appropriate incentives for the executives while aligning their interests with those of our shareholders,
- attract and retain management talent, by providing compensation competitive with other publicly and privately held real estate investment companies, and
- focus executives on current and long-term business objectives and critical issues.

Compensation of executive officers is comprised of three components: (1) base salary, (2) annual discretionary compensation, and (3) long-term or incentive compensation. With respect to each of these components, the compensation committee has adopted the following specific philosophies:

- base salaries should be below industry averages,
- annual incentive compensation, which is tied to meeting company and individual objectives, should be designed to bring total compensation to approximately equal to industry averages when performance objectives are met, and
- long-term incentive compensation, which aligns the interests of executive officers with those of long-term shareholders, should be above industry averages when the long-term performance of our common stock is above average.

Annual Incentive Compensation. The primary corporate objectives considered in annual incentive compensation for the named executives are: (1) growth in funds from operations per share, or FFO, (2) our total return to common shareholders compared to other REITs as shown on the performance graph in this proxy statement, (3) our balance sheet strength and flexibility, (4) growth of dividend and (5) key company objectives. With respect to other senior management, the Chief Executive Officer establishes performance measures and targets, which vary based on company, departmental and personal performance objectives.

Long-Term Incentives. During 2002, the components of our long-term executive incentive compensation were the 1999 Long-Term Incentive Plan, the Officer s Stock Purchase and Loan Plan and the Series A Out-Performance Program. Each of these programs is intended to align the interests of the executive officers with those of our shareholders.

The compensation committee considers the sale of the performance units under the Out-Performance Program to be the principal method of retaining key members of senior management and incentivising them to focus on achieving superior total returns for our shareholders.

CEO Compensation

Mr. Toomey is our Chief Executive Officer and President. In determining Mr. Toomey s compensation, the compensation committee reviewed comparative financial and pay data of selected peer companies in the REIT industry, including compensation packages provided to CEOs of similar companies. Based on this determination and upon negotiation with Mr. Toomey, the compensation committee established Mr. Toomey s base salary for 2002 at $250,000, which represents no increase from 2001.

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In February 2003, the compensation committee awarded Mr. Toomey a bonus of $1,100,000 for fiscal 2002 payable $300,000 in cash and $800,000 in the form of a grant of 51,387 shares of restricted stock, which shares vest on February 4, 2006. The primary factor considered by the compensation committee in determining the bonus amount was Mr. Toomey s significant contributions to the overall performance of our business during the past year as evidenced, in part, by the following achievements:

a total shareholder return, or TSR, of 22.3% for 2002, which is above those attained by the Morgan Stanley REIT Index, the NAREIT Equity Index and the NAREIT Equity Apartment Index,

Funds From Operations, or FFO, growth led our peer REIT comparison group,

the improvement in the balance sheet strength and flexibility as evidenced by the increase in fixed charge ratio from 1.99x to 2.19x, representing a 10.1% increase, and

the company s composite performance rank in the top quartile of its peer REIT comparison group.

Other Executive Compensation

The Chief Executive Officer makes recommendations to, and consults with, the compensation committee as to the amount of proposed base salaries for the executive officers who report directly to the CEO. After such consultation, the compensation committee sets the base salaries for the year for these executive officers and approves salary ranges for other executive officers based upon salaries paid for similar positions within the real estate and REIT industry (with an emphasis on the multi-family sector) as published in industry statistical surveys, and the proposed base salary relative to that of the other executive officers.

In setting executive officer salaries, the CEO and the compensation committee consider the individual officer s qualifications, past performance and potential for future contributions. In accordance with our stated compensation philosophy, the executive officers base salaries for fiscal 2002 were generally within the 25th to 50th percentile range of peer company base salary data obtained by the compensation committee.

Annual incentive awards to these executives were recommended by the CEO and reviewed and approved by the compensation committee. Primary considerations were the company s FFO and TSR results, as well as the assessed contribution of these individual executives to the company s success.

Performance Units Series A

During 2002, UDR Out-Performance I, LLC, a limited liability company owned by members of our senior management, sold 26,000 performance units to members of our senior management or other key employees. The sale of performance units was made pursuant to our Series A Out-Performance Program approved by our shareholders at our 2001 annual shareholders meeting. The Series A Out-Performance Program is designed to provide participants with the possibility of substantial returns on their investment if the total return on our common stock

exceeds targeted levels, while putting the participants investment at risk if those levels are not exceeded.

The performance units have the following features:

They represent equity in United Dominion Realty, L.P. and were sold at a cash price of $3.19 per unit to the purchasers in 2002.

The purchase price for the performance units was determined by our board of directors based on an independent valuation prepared by Salomon Smith Barney, Inc.

If a holder of performance units leaves our employ prior to the completion of the performance period and the vesting of the performance units, UDR Out-Performance I, LLC has the right, but not the obligation, to repurchase the performance units for the initial price paid by the purchaser. Should UDR Out-Performance I, LLC choose to resell those performance units, the purchase price is determined by the company s board of directors based upon the advice of an independent valuation expert.

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The performance units will have no value unless the cumulative total return on our common stock for the 28-month period from February 1, 2001 to June 1, 2003 exceeds the greater of the cumulative total return of the Morgan Stanley REIT Index (or such other index adopted by our compensation committee) or a minimum 30% total return.

If our total return satisfies the above performance criteria at the conclusion of the valuation period, the holders of the performance units will receive distributions and allocations of income and loss from United Dominion Realty, L.P. based on the number of interests in UDR Out-Performance I, LLC.

In 2001, United Dominion Realty, L.P. sold a total of 1,270,000 Class I Out-Performance Partnership Shares to UDR Out-Performance I, LLC pursuant to the Series A Out-Performance Program. UDR Out-Performance I, LLC then sold a total of 1,270,000 performance units in UDR Out-Performance I, LLC to our senior management and other key employees at a cash price of $1.00 per performance unit. Since 2001, UDR Out-Performance I, LLC has repurchased a total of 171,000 performance units from members of UDR Out-Performance I, LLC whose employment with the company terminated and re-sold 139,000 of those performance units to the company s senior management and other key employees. Of the 139,000 performance units which were re-sold, 26,000 performance units were re-sold in 2002 at a cash price of $3.19 per performance unit.

Other Compensation Considerations

Under Section 162(m) of the Internal Revenue Code of 1986, as amended (Code) the company may not receive a federal income tax deduction for compensation paid to our Chief Executive Officer or any of the four most highly compensated executive officers to the extent that any of the persons receive more than $1,000,000 in compensation in any one year. However, if the company pays compensation that is performance-based under Section 162(m) it is able to receive a federal income tax deduction for the compensation paid even if such compensation exceeds $1,000,000 in a single year.

Our 1999 Long-Term Incentive Plan and Series A Out-Performance Program have been designed to qualify as performance-based plans and therefore compensation realized in connection with these plans is fully tax deductible on our federal income tax return. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the compensation committee has not adopted a policy that all compensation must be deductible on our federal income tax returns.

COMPENSATION COMMITTEE

James D. Klingbeil, Chairman

Jon A. Grove

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the compensation committee was at any time during fiscal 2002 or at any other time an officer or employee of the company. In addition, none of our executive officers serves as a member of the board of directors or compensation committee of any company that has one or more executive officers serving as a member of our board of directors or compensation committee.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, or the Exchange Act, requires our officers and directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission. Such officers, directors, and 10% shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such forms received by us or written representations from certain reporting persons that no Form 5s were required for such persons, we believe that, during the fiscal year ended December 31, 2002, all Section 16(a) filing requirements applicable to our officers, directors, and 10% shareholders were complied with, except that each of Dr. Sagalyn and Messrs. Thomas J. Corcoran, Richard A. Giannotti, Patrick S. Gregory and Scott A. Shanaberger inadvertently failed to file a Form 4 on a timely basis with respect to one transaction.

PERFORMANCE GRAPH

The following graph provides a comparison from December 31, 1997 through December 31, 2002 of the cumulative total shareholder return (assuming reinvestment of any dividends) among United Dominion, the NAREIT Equity REIT Index (NAREIT Equity), the Standard & Poor s (S&P 500) Index, the NAREIT Equity Apartment Index (NAREIT Equity Apartment), and the Morgan Stanley REIT Index (Morgan Stanley REIT Index).

	1997	1998	1999	2000	2001	2002
United Dominion Realty Trust	$ 100	$ 80.25	$ 84.60	$ 102.46	$ 148.44	$ 181.53
NAREIT Equity Index	100	82.50	78.69	99.43	113.29	117.61
S&P 500	100	128.58	155.63	141.46	124.65	97.10
NAREIT Equity Apartment	100	91.23	101.01	136.90	148.76	139.62
Morgan Stanley REIT Index	100	83.09	79.14	100.58	113.49	117.62

The NAREIT Equity Apartment Index and NAREIT Equity Index are published by The National Association of Real Estate Investment Trusts, or NAREIT. Index data reflects monthly reinvestment of dividends and are based upon the monthly closing prices of shares of all tax-qualified equity apartment REITs and equity REITs, including United Dominion, listed on the New York Stock Exchange, the American Stock Exchange or traded in the NASDAQ National Market System. The Morgan Stanley REIT Index is a total-return index comprised of the most actively traded REITs and is designed to be a measure of real estate equity performance.

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AUDIT COMMITTEE REPORT

The following is a report of the audit committee with respect to our audited financial statements for the fiscal year ended December 31, 2002, which include our consolidated balance sheets as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years in the period ended December 31, 2002, and the notes thereto.

The audit committee is composed of three non-employee directors. All of the current members of the audit committee are independent as defined by New York Stock Exchange listing standards. John P. McCann served on the committee through September 26, 2002 but is not a current member of the committee. Because Mr. McCann retired as our Chairman and Chief Executive Officer in 2001, Mr. McCann does not meet the NYSE requirements for independence. The NYSE requirements for independence require, among other things, that for a director to be considered independent, a period of three years must expire from the date a director was previously an executive officer of the company. After considering Mr. McCann s knowledge of the operating and financial practices in the apartment industry, and his detailed knowledge of our operations, our board of directors determined that it was in the best interest of the company and our shareholders for Mr. McCann to serve on the audit committee for part of the 2002 fiscal year.

The audit committee operates pursuant to a written charter adopted by the board of directors and attached to this proxy statement as Appendix A. In general, the audit committee charter sets forth:

- the scope of the audit committee s responsibilities and the means by which it carries out these responsibilities,
- the outside auditor s accountability to the board of directors and the audit committee, and
- the audit committee s responsibility to monitor the independence of the outside auditor.

As described more fully in its charter, the purpose of the audit committee is to assist the board of directors in its general oversight of our financial reporting, internal control and audit functions. Management is responsible for the preparation, presentation and integrity of our financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. Ernst & Young LLP, our independent auditing firm, is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

The audit committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent auditor. The audit committee serves in a board-level oversight role, in which it provides advice, counsel and direction to management and the auditors on the basis of the information it receives, discussions with management and the auditors and the experience of the audit committee s members in business, financial and accounting matters.

The audit committee members have relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of our independent auditor included in their report on our financial statements. The audit committee s oversight role does

not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee s considerations and discussions with management and the independent auditor do not assure that our financial statements are presented in accordance with generally accepted accounting principles, that the audit of our financial statements has been carried out in accordance with generally accepted auditing standards or that our independent accountants are in fact independent.

Among other matters, the audit committee monitors the activities and performance of our external auditors, including the audit scope, audit fees, auditor independence matters and the extent to which the independent auditor may be retained to perform non-audit services. The audit committee is responsible for the appointment, compensation and oversight of our independent auditors. The audit committee also reviews the results of the internal and external audit work with regard to the adequacy and appropriateness of our financial, accounting and internal controls. Management and independent auditor presentations to and discussions with the audit committee also cover various topics and events that may have significant financial impact or are the subject of discussions between management and the independent auditor.

Review with Management

The audit committee has reviewed and discussed our audited financial statements with management. Management represented to the committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles.

Review and Discussions with Independent Accountants

During 2002, the audit committee held meetings with management and the independent auditors to discuss the overall scope and plans for the audit. We also met with the independent auditors, with and without management present, to discuss the results of their examinations and their evaluations of our internal controls. In addition, the audit committee has reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2002 and held discussions with management and Ernst & Young on the quality, not just the acceptability, of our accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The audit committee has also discussed with Ernst & Young the matters required to be discussed by SAS 61 (Codification of Statements on Accounting Standards) which includes, among other items, matters related to the conduct of the audit of our financial statements.

The audit committee has also received written disclosures and the letter from Ernst & Young required by Independence Standards Board Standard No. 1 (which relates to the accountant s independence from us and our related entities) and has discussed with Ernst & Young their independence from United Dominion. In addition, the audit committee has also considered whether the provision of those services set forth in the table below are compatible with Ernst & Young maintaining its independence from United Dominion.

In reliance on the reviews and the meetings, discussions and reports noted above, the audit committee recommended to the full board that our audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the SEC.

AUDIT COMMITTEE

Lynne B. Sagalyn, Chair

Robert P. Freeman Robert W. Scharar

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Audit Fees

The following table sets forth the aggregate fees billed or to be billed by Ernst & Young LLP for the following services during fiscal 2002:

Description of Services	Fee Amount
Audit fees (1)	$ 322,300
Financial Information Systems Design and Implementation Fees	$ 0
All other fees (2)	$ 663,764
Total	$ 986,064

(1) Represents the aggregate fees billed or to be billed for professional services rendered for the audit of our 2002 annual financial statements and for the review of the financial statements included in our quarterly reports during such period.

(2) Represents the aggregate fees billed in 2002 for services other than the audit of our 2002 annual financial statements, and includes $232,683 in fees for REIT tax compliance services, $82,795 in fees for tax advisory services (1031 and state planning), and $348,286 in audit-related fees for comfort support on public offerings, review of proxy materials and partnership and benefit plan audits.

P ROPOSAL NO. 2

REINCORPORATION FROM VIRGINIA TO MARYLAND

Our board of directors has unanimously approved the proposal to reincorporate from Virginia to Maryland and, for the reasons discussed below, believes that changing the company s state of incorporation to Maryland is in the best interests of the company and its shareholders. The effect of the reincorporation will be to change the law applicable to our corporate affairs from Virginia law to Maryland law. Following the reincorporation:

Our corporate name will continue to be United Dominion Realty Trust, Inc.

Our corporate office will continue to be located in Richmond, Virginia. We will not establish any offices or operations in Maryland as a result of the reincorporation.

Our business, directors and management will continue to be the same as immediately before the reincorporation.

Our fiscal year, assets, liabilities and dividend policies will be the same as immediately before the reincorporation.

Our board of directors believes that because of Maryland s more comprehensive laws governing REITs and the number of REITs domiciled in that state, Maryland courts have developed a greater expertise than Virginia courts in dealing with REITs and REIT issues and thus have developed a greater body of relevant case law. Our board of directors believes that the comprehensive Maryland statutes, Maryland s policies with respect to REITs and the established body of relevant case law are more conducive to the operations of a REIT than the laws and policies of Virginia and they provide the directors and management of a REIT with greater certainty and predictability in managing the affairs of the company.

As a result of the above, our board of directors believes that being incorporated in Maryland and being governed by Maryland law, like the majority of REITs in our peer group, would be in the best interest of the company.

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What are the Benefits of the Reincorporation?

Our board of directors believes that United Dominion will benefit in several ways by changing its state of incorporation from Virginia to Maryland:

- United Dominion will be governed by the Maryland General Corporation Law, which contains provisions conducive to the operations of a REIT,

- the fact that over 100 publicly owned REITs are currently organized under the laws of Maryland (including approximately 65% of REITs that are members of the National Association of Real Estate Investment Trusts, or NAREIT) has resulted in the development of a more comprehensive and clearer body of law and practice relating to Maryland REITs than is available to a REIT that is organized as a Virginia corporation, and

- being governed by Maryland law will bring the company s governance more in line with that of other REITs.

According to information available to our board of directors, nearly half of all REITs are incorporated in Maryland, whereas less than five percent (including United Dominion) are incorporated in Virginia. Moreover, according to available information, nearly 65% of REITs that are members of NAREIT, are incorporated in Maryland, whereas less than two percent of NAREIT members are incorporated in Virginia. With respect to United Dominion s peer group companies, as listed in the Morgan Stanley REIT Index, over 65% of the peer group REITs are incorporated in Maryland, whereas only one other REIT in the peer group is incorporated in Virginia.

The number of REITs that have incorporated or reincorporated in Maryland may be attributable to the fact that for many years Maryland has followed a policy of encouraging REITs to establish their legal domicile in that state. In furtherance of that policy, Maryland has adopted comprehensive, modern and flexible laws which are periodically updated and revised to meet changing business needs. Maryland has a comprehensive body of law specific to REITs and a pro-REIT state tax structure, including:

- provisions permitting charter restrictions on the transferability of stock, which are necessary to satisfy REIT tax requirements, and

- provisions which permit the issuance of shares to holders for the specific purpose of satisfying REIT tax requirements on share ownership.

Maryland has a separate statute governing REITs that are organized as a trust, and while this statute does not apply to corporations, many believe it helps provide greater certainty with respect to the treatment of a REIT under state law.

What are the Disadvantages of the Reincorporation?

While our board of directors believes the reincorporation is in the best interests of United Dominion and its shareholders, Virginia and Maryland law differ in some respects. The rights of shareholders and the powers of management under Maryland and Virginia law are discussed in more detail below.

What are the Material Federal Income Tax Consequences of the Reincorporation?

Consummation of the reincorporation merger is subject to our receipt of an opinion of Morrison & Foerster LLP that, on the basis of facts, representations and assumptions set forth in the opinion, the reincorporation will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. Based on the intended qualification of the reincorporation as a reorganization, no gain or loss will be recognized by United Dominion as a result of the reincorporation, and no gain or loss will be recognized by any shareholder of United Dominion who receives common stock of the new Maryland corporation in exchange for

our current common stock. State, local or foreign income tax consequences to shareholders may vary from the federal tax consequences described above, and shareholders should consult their own tax advisors as to the effect of the reincorporation under applicable tax laws.

Does Anything Change With Regard To My Investment in UDR Stock?

In effect, no. After the reincorporation, each outstanding share of stock of the Maryland corporation will entitle the holder thereof to voting rights (except as provided under Maryland law as discussed below), dividend rights and liquidation rights equivalent to the rights of holders of our stock prior to the reincorporation. Our common stock is currently listed on the New York Stock Exchange under the symbol UDR and following the reincorporation will continue to be listed on the NYSE under the same symbol. The NYSE has advised us that it will consider delivery of existing certificates representing our common stock as constituting good delivery of the Maryland corporation s common stock in transactions subsequent to the reincorporation.

If the reincorporation is approved and the merger completed, we will take necessary action to provide that all rights of participants in our stock option and stock purchase plans prior to the merger will be substantially identical to their rights following the merger. Accordingly, the participants new rights will be on substantially identical terms and conditions contained in our existing plans. A vote to approve the reincorporation will also be deemed a vote to approve the necessary amendments to the existing stock option and stock purchase plans.

Will the Company s Business Change After the Reincorporation?

No, the reincorporation will not result in any change in our name, business, directors, management, fiscal year, assets or liabilities, dividend policies or the location of our principal executive and corporate offices.

How Will the Reincorporation be Accomplished?

Following approval by our shareholders, the reincorporation will become effective when articles of merger are filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland and the State Corporation Commission of the Commonwealth of Virginia. We anticipate that this filing will be made as soon as possible after the annual meeting. At the effective time of the merger:

United Dominion will be merged with and into its Maryland subsidiary, which will be the surviving corporation in the merger, and the name of the surviving Maryland corporation will be changed to United Dominion Realty Trust, Inc.

United Dominion will cease to exist as a Virginia corporation. As a Maryland corporation, the company will be governed by Maryland law instead of Virginia law.

Following the merger, the company will be governed by the Maryland charter and Maryland bylaws attached to this proxy statement as Appendix C and Appendix D, respectively.

All shares of our common stock, including the attached Series C preferred share purchase rights, will be converted into shares of common stock of the Maryland corporation, including the attached preferred share purchase rights.

Following the effective time of the merger, all share certificates representing shares of our common stock immediately prior to the merger will be deemed to represent a like number of shares of the Maryland corporation s common stock without any action on the part of the holder.

All options, rights or warrants to purchase shares of our common stock immediately prior to the merger will thereafter entitle the holder to purchase a like number of shares of the Maryland corporation s common stock on the same terms without any action on the part of the holder.

The reincorporation is subject to conditions, including approval by more than two-thirds of the votes entitled to be cast at the annual meeting.

Why Will the Number of Authorized Shares of Common Stock Increase to 250,000,000 Shares?

Our restated articles authorize the issuance of 150,000,000 shares of common stock, of which over 108,000,000 shares are currently issued and outstanding. The Maryland charter authorizes 250,000,000 shares of common stock. Our board of directors believes the additional shares of common stock resulting from the increase in authorized capital should be available for issuance from time to time as may be required for various purposes, including the issuance of common stock in connection with financing or acquisition opportunities and the issuance or reservation of common stock for long-term incentive programs. Our board of directors believes that it is in the best interests of the company and its shareholders to increase the authorized common stock in connection with the reincorporation so that the company can avoid the necessity, and related costs and delays, of either calling a special shareholders meeting or waiting for the regularly scheduled annual meeting of shareholders to increase the authorized capital. The proposed change in the authorized capital is not intended to have any antitakeover effect.

How Do the Rights of Shareholders and the Corporate Governance of the Company Compare Before and After the Reincorporation?

United Dominion is currently organized as a corporation under the laws of the Commonwealth of Virginia. As a Virginia corporation, United Dominion is governed by:

- the Virginia Stock Corporation Act, which we refer to as the VSCA,
- the company s restated articles of incorporation, and
- the company s amended and restated bylaws.

As a Maryland corporation, United Dominion will be governed by:

- the Maryland General Corporation Law, which we refer to as the MGCL,
- the Maryland charter attached hereto as Appendix C, as further amended from time to time, and
- the Maryland bylaws attached hereto as Appendix D, as further amended from time to time.

The material differences between the applicable Virginia and Maryland law and among these various documents are summarized below. The comparison of rights of the shareholders of United Dominion before and after the reincorporation below is not complete and is subject to and qualified in its entirety by reference to the VSCA, the MGCL, the Maryland charter and bylaws, and United Dominion s restated articles of incorporation and amended and restated bylaws, copies of which may be obtained from United Dominion by writing to the Corporate Secretary at United Dominion Realty Trust, Inc., 400 East Cary Street, Richmond, Virginia 23219.

Capitalization

Virginia. The company s restated articles of incorporation authorize a total of 175,000,000 shares of stock consisting of 150,000,000 shares of common stock, $1.00 par value per share, and 25,000,000 shares of preferred stock, no par value. There are two designated series of preferred stock outstanding: our 8.60% Series B Cumulative Redeemable Preferred Stock and our Series D Cumulative Convertible Redeemable Preferred Stock. As of March 24, 2003, 108,827,959 shares of our common stock were issued and outstanding. As of the same date there were 5,416,009 shares of the Series B Preferred Stock outstanding and 8,000,000 shares of the Series D Preferred Stock outstanding. No shares of the Series C Junior Participating Cumulative Redeemable Preferred Stock have been issued, and none will be issued except upon the exercise of rights attached to the shares of our common stock.

Maryland. The Maryland charter authorizes a total of 275,000,000 shares of stock consisting of 250,000,000 shares of common stock, $1.00 par value per share, and 25,000,000 shares of preferred stock, no par value. The Maryland charter is the same as our current Virginia restated articles of incorporation with respect to

the rights, designations and preferences of outstanding stock. Immediately following the merger, the Maryland corporation will have outstanding the same number of shares of common and preferred stock as the Virginia corporation had immediately prior to the merger.

Charter Amendments

Virginia. Under the VSCA, the articles of incorporation may be amended if the amendment is approved by the board of directors and the affirmative vote of two-thirds of the outstanding stock of each class entitled to vote, except for certain amendments which do not require shareholder approval and provided the articles of incorporation do not require a different percentage. The directors may, unless the articles of incorporation provide otherwise, adopt an amendment to the articles of incorporation without shareholder action to, among other things: (1) change each issued and unissued but authorized share of an outstanding class into a greater number of shares if the corporation has only shares of that class outstanding, and (2) eliminate or change the par value of the shares of any class or series. In certain specified instances the VSCA entitles the holders of the outstanding shares of a class or series are entitled to vote as a separate class or series on a proposed amendment that would affect the class or series.

Our restated articles of incorporation require the affirmative vote of a majority of all votes entitled to be cast by each voting group for approval of any amendment or restatement of the articles of incorporation, other than an amendment or restatement that amends or affects the shareholder vote required by the VSCA to approve a merger, share exchange, sale of all or substantially all of the corporation s assets or the dissolution of the corporation, which require the affirmative vote of two-thirds of the outstanding stock entitled to vote thereon.

Maryland. The MGCL is similar to the VSCA with respect to amending the charter. The MGCL requires that a charter amendment be approved by the board and the affirmative vote of two-thirds of all the shareholder votes entitled to be cast on the matter, unless a greater or lesser proportion of votes (but not less than a majority of all votes entitled to be cast) is specified in the charter. A Maryland corporation may also provide in its charter that the board of directors, with the approval of a majority of the entire board, and without action by the shareholders, may amend the charter to increase or decrease the aggregate number of shares of stock of the corporation or the number of shares of stock of any class that the corporation has authority to issue.

The Maryland charter generally provides that an amendment to the charter will be valid and effective if authorized by the affirmative vote of the holders of not less than two-thirds of the shares of stock outstanding and entitled to vote thereon. However, to the extent permitted by Maryland law, the board of directors, with the approval of a majority of the board and without any action of the shareholders, may amend the charter to change the name of the corporation, the name or other designation or par value of any class or series of stock, and the aggregate par value of the company s stock. In addition, the Maryland charter provides that a majority of the board, without any action of the shareholders, may amend the charter to (1) change the aggregate number of shares of the company s stock, (2) change the number of shares of any class or series that the company has authority to issue, or (3) classify or reclassify any unissued shares by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms and conditions or redemption of such shares.

Amendment to Bylaws

Virginia. Under the VSCA, an amendment to the bylaws may generally be adopted by the board of directors without shareholder approval except for quorum and voting requirements binding on the corporation s board and unless such power has been reserved by the shareholders. However, even if the power is not reserved by the shareholders, the shareholders may not be divested of their right to adopt, amend and repeal the bylaws.

Maryland. Under Maryland law, an amendment to the bylaws requires the approval of the shareholders, unless the charter or bylaws confers the power to amend to the board of directors. The Maryland charter confers the exclusive right to amend the bylaws upon the board of directors.

Shareholder Action by Written Consent

Under both the VSCA and the MGCL, any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting only if all shareholders entitled to vote on the matter execute a written consent setting forth the action. For publicly traded corporations, shareholder action without a meeting is not practicable for either Virginia or Maryland corporations.

Special Shareholder Meetings

Virginia. Under the VSCA, the Chairman of the Board, the President, the board of directors or any other person authorized to do so in the articles or bylaws may call a special meeting of the shareholders. Further, the board of directors has the sole power to fix (1) the record date for determining which shareholders shall be entitled to request a special meeting of the shareholders, and (2) the record date for determining which shareholders are entitled to receive notice of and to vote at the special meeting; provided that the record date must be a date fixed not more than ninety days prior to the meeting or requested shareholder action. The board also has the exclusive power to set the date, time, and location of the special meeting.

The VSCA does not provide a separate statute expressly governing the rights of shareholders to call a special meeting in corporations with more than thirty-five shareholders. Consequently, the rights of our shareholders to call a special meeting are limited to those rights set forth in the company s organizational documents. Our amended and restated bylaws provide that meetings of the shareholders shall be held whenever called by the Chairman of the Board, the President, a majority of the directors or shareholders holding at least 1/10 of the number of outstanding shares of stock entitled to vote. Notice of such meetings may not be given more than sixty days in advance of the meeting and the record date must be a date fixed not more than seventy days prior to the meeting or requested shareholder action.

Maryland. Under the MGCL the Board, the president and any other authorized person may call a special meeting. However, unlike the VSCA, the MGCL contains a statute expressly governing the rights of shareholders to call a special meeting for corporations such as United Dominion. Notwithstanding the charter or bylaws, for REITs that have elected to be governed by the specific provisions relating to shareholder meetings, the corporate secretary may call a special meeting upon the request of shareholders only upon the written request of the shareholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting. The Maryland bylaws provide that special meetings may be called by the Chairman of the Board, the president, the board of directors or, upon written request, shareholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting.

Restrictions on Ownership and Transfer of Stock

Virginia. The VSCA allows restriction on the transfer of shares: (1) to maintain the corporation s status when it is dependent on the number or identity of its shareholders, (2) to preserve exemptions under federal or state securities laws, and (3) for any other reasonable purpose. Our current articles contain ownership and transfer restrictions designed to preserve the corporation s REIT status under the Code.

Maryland. The MGCL expressly authorizes the charter of a Maryland corporation to provide for restrictions on transferability designed to permit a corporation to qualify as a REIT under the Code or for any other purpose. The Maryland charter contains ownership and transfer

restrictions designed to preserve the corporation s REIT status under the Code including but not limited to the following:

Except as provided in the Maryland charter, no person shall beneficially own or constructively own shares of the outstanding equity stock in excess of a 9.9% ownership interest;

Except as provided in Maryland charter, any transfer that, if effective, would result in any person beneficially owning or constructively owning equity stock in excess of a 9.9% ownership interest shall

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be void as to the transfer of that number of shares of equity stock which would otherwise beneficially owned or constructively owned by such person in excess of the ownership limit; and the intended transferee shall acquire no rights in such excess shares of equity stock;

Except as provided in the Maryland charter, any transfer that, if effective, would result in the equity stock being beneficially owned by fewer than 100 persons shall be void as to the transfer of that number of shares which would be otherwise beneficially owned or constructively owned by the transferee; and the intended transferee shall acquire no rights in such excess shares of equity stock; and

Any transfer of shares of equity stock that, if effective, would result in us being closely held within the meaning of Section 856(h) of the Code shall be void as to the transfer of that number of shares of equity stock which would cause us to be closely held within the meaning of Section 856(h) of the Code; and the intended transferee shall acquire no rights in such excess shares of equity stock.

Inspection Rights

Virginia. Under the VSCA, the share transfer books must be made available to shareholders for inspection at least 10 days before a meeting of shareholders. Additionally, Virginia corporations are required to maintain the following records, which any shareholder of record may, after at least 5 business days written notice, inspect and copy: (1) the articles and bylaws, (2) board resolutions creating any class or series of outstanding shares, (3) minutes of shareholder meetings and shareholder actions by written consent, for the past 3 years, (4) written communications to shareholders for the past 3 years, (5) names and addresses of current directors and officers and (6) the most recent annual report filed with the Virginia State Corporation Commission.

Provided certain conditions are met, a shareholder of a Virginia corporation who has been a shareholder of record for a least 6 months immediately preceding a demand or is a holder of record of at least 5% of all outstanding shares is also entitled to inspect and copy, during regular business hours, any of the following records of the corporation: (1) excerpts from minutes of any board meeting, records of any action of a board committee while acting in the place of the board, minutes of any meeting of shareholders and records of action taken by the shareholders or the board without a meeting, (2) accounting records of the corporation, and (3) the record of shareholders.

Maryland. Under the MGCL, all shareholders are permitted to view the bylaws, shareholder meeting minutes, annual statements of affairs and voting trust agreements on file at the corporation s principal office. Stock records may also be inspected with 20 days notice by any shareholder. In addition, shareholders of record for a minimum 6 months of at least 5% of the outstanding stock of any class of a corporation may view the corporation s books of account, the corporation s statement of its affairs and the corporation s stock ledger or shareholder list.

Number and Election of Directors

Virginia. The minimum number of directors of a Virginia corporation is one. The VSCA provides that the number of directors shall be fixed by, or in the manner provided in, the bylaws, unless the articles fix the number, in which case the number may be changed only by amendment to the articles. The VSCA provides that shareholders may adopt a bylaw fixing the number of directors and may direct that such bylaws not be amended by the board. If a bylaw states a fixed number of directors and the board of directors has the right to amend the bylaw, it may by amendment to the bylaw increase or decrease by thirty percent or less the number of directors last elected by the shareholders, but only the shareholders may increase or decrease the number by more than thirty percent. In addition, the VSCA permits a staggered or classified board of directors if a staggered or classified board is provided in the articles. The VSCA provides that directors are to be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present, unless the articles provide otherwise.

Our restated articles of incorporation provide that the number of directors shall be fixed by the bylaws, or in the absence of a bylaw fixing the number, shall be three. Our amended and restated bylaws provide that the board determines the number of directors, provided there is a minimum of three directors. The number of directors is currently fixed at ten. The restated articles of incorporation do not provide for a classified board.

Maryland. Under the MGCL, the minimum number of directors of a Maryland corporation having three or more shareholders is three. The number of directors is provided by the charter until changed by the bylaws. The bylaws may both alter the number of directors set by the charter and authorize a majority of the entire board of directors to alter, within specified limits, the number of directors set by the charter or the bylaws, but the action may not affect the tenure of office of any director. In addition, the MGCL permits, but does not require, the board to be classified. If the directors are divided into classes, the term of office may be provided in the bylaws or in the charter, except that the term of office of a director may not be longer than five years or, except in the case of an initial or substitute director, shorter than the period between annual meetings. The term of office of at least one class must expire each year. The MGCL allows the board, by its own action and without shareholder approval, to implement a staggered board and, if implemented, such directors (i) cannot be removed without cause, and (ii) can only be removed for cause with a two-thirds vote of the shareholders. Unless the charter or bylaws provide otherwise, a plurality of the votes cast at a meeting at which a quorum is present is sufficient to elect a director.

The Maryland charter provides that the initial number of directors shall be ten, which number may be changed in accordance with the Maryland bylaws, provided that the total number of directors may not be less than the minimum number permitted by the MGCL. The Maryland bylaws provide that the number of directors shall not be less than one nor more than 12, with the exact number fixed by the board. Subject to the foregoing, the number of directors will be fixed at ten. Pursuant to the bylaws, directors shall be elected by a plurality vote of the shares, represented in person or by proxy, at the shareholders annual meeting in each year and entitled to vote on the election of directors. The directors of the Maryland corporation will be the same as the directors of the Virginia corporation immediately prior to the merger.

Removal of Directors

Virginia. Under the VSCA, shareholders may remove a director with or without cause, unless the articles provide otherwise. Our current articles do not provide otherwise. The VSCA also provides that if a director is elected by a voting group of shareholders, only the shareholders of that group may participate in the vote to remove the director. Where cumulative voting is not authorized, as is the case with United Dominion, a director may be removed if the number of votes cast to remove the director constitutes a majority of the votes entitled to be cast at an election of directors of the group by which the director was elected. Shareholders may remove a director of a Virginia corporation only at a meeting called for the purpose of such removal.

Maryland. The MGCL provides that the shareholders of a corporation may remove any director, with or without cause, by the affirmative vote of a majority of all votes entitled to be cast for the election of directors, unless the charter provides otherwise. However, unless the charter provides otherwise, if the shareholders of any class or series are entitled separately to elect one or more directors, a director may not be removed without cause except by the affirmative vote of a majority of all the votes of that class or series. The Maryland charter provides that, subject to the rights of the preferred stock to elect or remove one or more directors, any director or the entire board may be removed from office at any time, but only for cause and only at a meeting of the shareholders called for such purpose, by the affirmative vote of the holders of not less than two-thirds of the outstanding shares entitled to vote, voting as a class, in the election of directors.

Board Vacancies

Virginia. Under the VSCA, unless the articles provide otherwise, a vacancy on the board may be filled by the shareholders, the board or, if the directors remaining in office constitute less than a quorum of the board, by

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the affirmative vote of a majority of the directors remaining in office. Our amended and restated bylaws provide that vacancies may be filled by the remaining directors unless sooner filled by the shareholders at a meeting.

Maryland. Consistent with the MGCL, the Maryland bylaws provide that a vacancy on the board resulting from the increase in the number of directors, the death, removal or resignation of a director, or the shareholders failure to elect the number of directors then constituting the whole board, may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum.

Standard of Conduct

Virginia. Under Virginia law, directors must discharge their duties with good faith business judgment as to the best interests of the corporation. However, the VSCA provides very little express guidance as to the fiduciary duties of directors.

Maryland. The MGCL requires that a director perform his duties:

- in good faith,
- in a manner he reasonably believes to be in the best interests of the corporation, and
- with the care an ordinarily prudent person in a like position would use under similar circumstances.

The MGCL establishes a presumption that any act of a director satisfies this standard of conduct. In addition, under the MGCL an act of director relating to an acquisition or potential acquisition of control may not be subject to a higher duty or greater scrutiny than is applied to any other act of a director.

Advance Notice of Director Nominations and of New Business Proposals

Virginia. Neither the VSCA nor the company s restated articles of incorporation or amended and restated bylaws provide for advance notice of director nominations or business proposals.

Maryland. Under the MGCL, a Maryland corporation may require that a shareholder proposing a nominee for director, or any other matter that would be considered at a meeting of the shareholders, give advance notice to the corporation either: (1) ninety days prior to the date of the meeting, (2) in the case of an annual meeting, ninety days prior to the first anniversary of (a) the preceding year s annual meeting, or (b) the mailing date of the notice of the preceding year s annual meeting, or (3) any other time specified in the charter or bylaws. If the advance notice requirement is not met, the company is not required to consider the proposal.

The Maryland bylaws provide that with respect to an annual meeting of shareholders, nominations of persons for election to the board and the proposal of business to be considered by shareholders may be made only:

- pursuant to the company s notice of meeting,
- by or at the direction of the board, or
- by a shareholder who was a shareholder of record both at the time of giving notice provided for in the bylaws and at the time of the annual meeting, and who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in the bylaws.

The advance notice provisions contained in the Maryland bylaws generally require that shareholders deliver nominations and new business proposals to the company s secretary not later than the close of business on the 90th day nor earlier than the close of business on the 120th day before the date on which the company first mailed its proxy materials for the prior year s annual meeting of shareholders.

Limitation of Liability and Indemnification of Directors and Officers

Virginia. Under the VSCA, in any proceeding brought by or on behalf of a shareholder or in the right of the corporation, the damages assessed against an officer or director arising out of a single transaction, occurrence

or course of conduct, shall not exceed the lesser of: (1) the monetary amount specified in the articles or, if approved by the shareholders, in the bylaws as a limitation on or elimination of the liability of the officer or director, or (2) the greater of (a) $100,000, or (b) the amount of cash compensation received by the officer or director from the company during the twelve months immediately preceding the act or omission for which liability was imposed. However, an officer or director will be liable without limitation if he or she engaged in willful misconduct, knowing violation of criminal law or any federal or state securities law. The company s restated articles of incorporation provide that the liability of directors and officers for monetary damages is limited or eliminated to the fullest extent permitted by law.

The VSCA permits a corporation, unless otherwise restricted by its articles or bylaws, to indemnify a director if the director acted in good faith and believed that his conduct was in the corporation s best interest and, with respect to a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In general, no indemnification is allowable when the director is adjudged liable to the corporation or in connection with a proceeding charging improper personal benefit to the director, in which he is adjudged liable on the basis that a benefit was improperly received by him. Indemnification may be afforded by the corporation generally only if a disinterested quorum of the directors, independent legal counsel or the shareholders determine that the applicable statutory standards have been met.

Unless limited by the articles, officers and agents of a Virginia corporation may be indemnified to the same extent as a director. To the extent a director or officer entirely prevails in a proceeding against him, indemnification for expenses incurred is mandatory, unless the articles provide otherwise. Advancement of expenses is permitted under certain circumstances. Any further indemnity may also be made to any director, officer, employee or agent that may be authorized by the articles, bylaws or resolution adopted by the shareholders, except an indemnity against (1) willful misconduct or (2) a knowing violation of a criminal law. The company s restated articles of incorporation provide that the corporation shall provide indemnification to the full extent permitted and the manner prescribed by law.

Maryland. The MGCL provides that a corporation may indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities. The MGCL does not permit a corporation to indemnify its present and former directors, officers, agents or employees if it is established that:

- the act or omission by such person was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty,

- the person actually received an improper personal benefit, or

- in the case of any criminal proceeding, the person had reasonable cause to believe that the act or omission was unlawful.

Unless a corporation s charter provides otherwise, which the Maryland charter does not, the MGCL requires a corporation to indemnify a director or officer who has been successful in the defense of any proceeding to which he is made a party by reason of his service in that capacity. The MGCL permits a corporation to advance reasonable expenses to a director, officer, employee or agent.

Under the MGCL, a corporation generally may not indemnify a person for an adverse judgment in a suit by or in the right of the corporation. Also, a Maryland corporation generally may not indemnify a person for a judgment of liability on the basis that personal benefit was improperly received. In either of these cases, a corporation may indemnify a person for expenses only if a court so orders. The Maryland bylaws obligate the company to indemnify its directors and officers, whether serving the company or, at its request, any other entity, to the maximum extent required or permitted by the MGCL, and other employees and agents to such extent as authorized by its board and bylaws and as may be permitted by law. The MGCL permits a Maryland corporation to include in its charter a provision eliminating the liability of its directors and officers to the

corporation and its

shareholders for money damages. However, a Maryland corporation may not eliminate liability resulting from actual receipt of an improper benefit or profit. Also, liability resulting from active and deliberate dishonesty may not be eliminated if a final judgment establishes that the dishonesty is material to the cause of action.

The Maryland charter and bylaws contain provisions which limit or eliminate the liability of directors and officers, and provide indemnification for directors and officers, to the full extent permitted by law.

Dividends and Other Distributions

Both the VSCA and MGCL provide that dividends may be declared and paid on the corporation s capital stock as determined by the board and subject to any restrictions contained in the corporation s charter, provided that no dividends may be paid if, after giving effect to the distribution: (1) the corporation would not be able to pay its debts as they become due in the usual course of business, or (2) the corporation s total assets would be less than the sum of its total liabilities plus, unless the charter permits otherwise, any amount required to be paid to holders of preferred stock in the event of a liquidation of the corporation.

Appraisal Rights

Virginia. Under the VSCA, the right to receive the fair value of dissenting shares is available to shareholders of a constituent corporation in a merger or consolidation effected under the VSCA. Dissenters rights of appraisal are not available for the shares of any class or series of stock, if the stock was at the record date fixed to determine shareholders entitled to receive notice and vote on such transaction, either (1) listed on a national securities exchange or NASDAQ, or (2) held by at least 2,000 record holders, unless in either case:

(a) the articles of the corporation issuing such shares provide otherwise,

(b) the holders of the class or series are required under the plan of merger to accept for such shares anything except:

- cash,
- shares of stock of the corporation surviving or resulting from such merger or consolidation,
- shares of stock of any other corporation, which shares of stock will be either listed on a national securities exchange, or held of record by at least 2,000 holders, or
- any combination of the shares of stock and cash in lieu of such fractional shares, and

(c) the transaction to be voted on is an affiliated transaction and is not approved by a majority of disinterested directors, as defined in the VSCA.

Maryland. Under the MGCL, a shareholder has the right to demand and receive payment of the fair value of the shareholder s stock from the corporation if the corporation consolidates or merges with another corporation, the corporation sells all of its assets or, if not permitted by its charter, the corporation amends its charter to substantially affect the shareholders contract rights, unless:

the stock is listed on a national securities exchange or is designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or

the stock is that of the successor in a merger, unless (1) the merger alters the contract rights of the stock as expressly set forth in the charter, and the charter does not reserve the right to do so, or (2) the stock is to be changed or converted in whole or in part in the merger into something other than either stock in the successor or cash, scrip, or other rights or interests arising out of the provisions for the treatment of fractional shares of stock in the successor.

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Merger, Consolidation, Share Exchange and Transfer of All or Substantially All Assets

Virginia. Under the VSCA, the principal terms of a merger or consolidation generally require the approval of the shareholders of each of the constituent corporations. The VSCA does not require a shareholder vote of the surviving corporation in a merger if:

- the articles of the surviving corporation will not differ, with certain exceptions, from its articles before the merger,
- each shareholder of the surviving corporation whose shares were outstanding immediately prior to the merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights, immediately after,
- the number of voting shares outstanding immediately after the merger, plus the number of voting shares issuable as a result of the merger, will not exceed by more than 20% the total number of voting shares of the surviving corporation outstanding immediately before the merger, and
- the number of participating shares outstanding immediately after the merger, plus the number of participating shares issuable as a result of the merger, will not exceed by more than 20% the total number of participating shares of the surviving corporation outstanding immediately before the merger.

The VSCA also permits a merger without shareholder vote if the merger is of a subsidiary into a parent, provided the parent owns at least 90% of the subsidiary.

When a shareholder vote is required, unless the articles provide otherwise (which the company s restated articles of incorporation do not), the affirmative vote of more than two-thirds of all the votes entitled to be cast by each voting group entitled to vote on the transaction is required for the approval of a merger or consolidation. The articles may provide for a greater or lesser vote or a vote by separate voting groups so long as the vote provided for is not less than a majority of all the votes cast on the transaction by each voting group entitled to vote thereon at a meeting at which a quorum of the voting group exists.

Maryland. The MGCL generally provides that mergers, consolidations, share exchanges or transfers of assets must be approved by shareholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, unless the charter provides for a greater or lesser shareholder vote, but not less than a majority of the number of votes entitled to be cast on the matter. The Maryland charter does not provide for a different shareholder vote than that required by the MGCL. Some mergers may be accomplished without a vote of shareholders. For example, no shareholder vote is required for a merger of a subsidiary of a Maryland corporation into its parent, provided the parent owns at least 90% of the subsidiary. In addition, a merger need not be approved by shareholders of a Maryland successor corporation if the merger does not reclassify or change the outstanding shares or otherwise amend the charter, and the number of shares to be issued or delivered in the merger is not more than 20% of the number of its shares of the same class or series outstanding immediately before the merger becomes effective. A share exchange need be approved by a Maryland successor only by its board and by any other action required by its charter.

Change In Control

Virginia. The VSCA contains provisions governing affiliated transactions designed to deter uninvited takeovers of Virginia corporations. These provisions, with several exceptions discussed below, require approval of material acquisition transactions between a Virginia corporation and any interested shareholders by the holders of at least two-thirds of the remaining voting shares. An interested shareholder is any holder of more than 10% of any class of its outstanding voting shares.

For three years following the time that the interested shareholder becomes an owner of 10% of the outstanding voting shares, Virginia corporations cannot engage in an affiliated transaction with the interested

shareholder without approval of two-thirds of the voting shares other than those shares beneficially owned by the interested shareholder, and majority approval of the disinterested directors. At the expiration of the three-year period, the statute requires approval of affiliated transactions by two-thirds of the voting shares other than those beneficially owned by the interested shareholder absent an exception. The principal exceptions to the special voting requirement apply to transactions proposed after the three-year period has expired and require either that the transaction be approved by a majority of the corporation s disinterested directors or that the transaction satisfy the fair-price requirements of the law.

The VSCA also provides that shares acquired in a transaction that would cause the acquiring person s voting strength to cross any of three thresholds, namely, 20%, 33% or 50%, have no voting rights unless granted by a majority vote of shares not owned by the acquiring person or any officer or employee-director of United Dominion.

Maryland. Under the MGCL, business combinations between a Maryland corporation and an interested shareholder or an affiliate of an interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested shareholder generally includes:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares, or

- an affiliate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

After the five-year prohibition, any business combination between the Maryland corporation and an interested shareholder generally must be recommended by the board of directors of the corporation and approved by two separate super-majority shareholder votes, unless, among other conditions, the holders of common stock receive a minimum price, as defined by the MGCL, for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common stock. None of these provisions of the MGCL will apply, however, (1) to business combinations that are approved or exempted by the board of the corporation prior to the time that the interested shareholder becomes an interested shareholder, or (2) if the board approves the transaction in which the shareholder became an interested shareholder.

Also under the MGCL, control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or shares of stock for which the acquirer is able to exercise or direct the exercise of voting power except solely by virtue of a revocable proxy, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-fifth or more but less than one-third,

- one-third or more but less than a majority, or

- a majority or more of all voting power.

An acquiring person s movement from one range above to the next higher range of voting power re-triggers the two-thirds vote requirement mentioned above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. Except as otherwise specified in the statute, a control share acquisition means the acquisition of control shares.

The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or to acquisitions approved or exempted by the charter or

bylaws of the corporation. The Maryland bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of stock of the company. We cannot assure you, however, that the board will not amend the bylaws in the future to provide that the control share acquisition provisions of the MGCL apply to the company.

Are There Any Provisions Applicable to Unfriendly Takeover Proposals in the MGCL?

The Maryland corporation will be subject to provisions of the MGCL which are designed to encourage a person seeking control of a Maryland corporation to negotiate with its board of directors. These provisions could delay, defer, or prevent a transaction or change in control of the Maryland corporation that might involve a premium price for holders of the Maryland corporation s common stock or that is otherwise in their best interests. In addition, other provisions of the MGCL requiring the consent of all shareholders for shareholder action by written consent and provisions of the Maryland bylaws, attached hereto as Appendix D, requiring advance notice of shareholder director nominations could increase the likelihood that incumbent directors would retain their positions in the face of efforts by shareholders to change the company s board of directors.

Are There Any Appraisal Rights Offered in the Reincorporation?

Under Virginia and Maryland law, shareholders will not have any right to elect to have the fair value of their shares judicially appraised and paid to them in cash in connection with, or as a result of, the reincorporation or merger.

What is the Vote Required for Approval of the Reincorporation Proposal?

The reincorporation proposal requires the affirmative vote of more than two-thirds of the shares of our common stock entitled to vote at the meeting. Approval of the reincorporation proposal by our shareholders at the meeting will also constitute approval of the plan of merger in the form attached to this proxy statement as Appendix B, as well as the Maryland charter and Maryland bylaws attached as Appendix C and Appendix D, respectively, including the increase in the number of authorized shares of our common stock from 150,000,000 to 250,000,000 shares.

What is the Recommendation of the Board of Directors?

Our board of directors recommends that the shareholders vote FOR the proposal to change the company s state of incorporation from Virginia to Maryland.

PROPOSAL NO. 3

SERIES B OUT-PERFORMANCE PROGRAM

Background

We compete for management talent with both public and private real estate investment vehicles and constantly review compensation structures and practices in an effort to remain highly competitive. Our compensation programs are designed to further our primary goal of increasing dividend income and share price appreciation. Our board of directors intends for these goals to be the primary economic motivation of our executive officers and other key employees.

Our board of directors believes that it is in the best interest of our shareholders to retain a management team that has a meaningful equity stake in the long-term success of our company. To this end the board is recommending that the shareholders approve the Series B Out-Performance Program pursuant to which certain of

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our executive officers will be given the opportunity to invest in our company by purchasing performance shares, referred to in this proxy statement as the Out-Performance Partnership Shares or the OPPSs, of a newly formed Maryland limited partnership in which United Dominion is the sole general partner. For information regarding our Series A Out-Performance Program approved by our shareholders at our annual meeting of shareholders held on May 8, 2001, see Series A Out-Performance Program above.

Our board of directors does not view stock options as an effective long-term incentive vehicle, due in part to the relatively low stock price appreciation in the REIT industry, and therefore does not plan to make ongoing grants of stock options to our executive officers. Instead, the Out-Performance Program represents the primary long-term incentive program for the company s executive officers.

Like the Series A Out-Performance Program approved by our shareholders in 2001, the Series B Out-Performance Program is designed to provide participants with the possibility of substantial returns on their investment if the total return on our common stock exceeds targeted levels, while putting the participants investment at risk if those levels are not exceeded. The program will be administered by our board of directors. Members of our board of directors who are not our employees are not eligible to participate in the program.

If the Series B Out-Performance Program is approved by our shareholders, our board of directors anticipates authorizing the sale of a class of OPPSs to a limited liability company, or LLC, to be formed for the benefit of selected executive officers and key employees who agree to invest in that class of OPPSs. The participants will contribute the funds for the LLC to purchase the OPPSs and will share ownership of the LLC on the basis of each participant s investment in the LLC. The purchase price will be set by our board of directors based upon the advice of an independent valuation expert.

Participation in Series B OPPSs

Our board of directors has developed the principal terms of the Series B OPPSs that it intends to offer to participants in 2003. For the Series B OPPSs, participation rights will be approximately as follows:

Participant	Percentage of Units to be Offered
Thomas W. Toomey	34%
W. Mark Wallis	14%
Ella S. Neyland	13%
Christopher D. Genry	13%
G. Daniel Adams	13%
Kevin M. McCabe	13%
All Executive Officers as a Group	100%

The purchase price for the Series B OPPSs has been determined by our board of directors to be $1,000,000, assuming 100% participation, and was based upon the advice of an independent valuation expert. The valuation took into account that any investment in the Series B OPPSs will become worthless if the targeted Total Return is not achieved. The value of the Series B OPPSs also has been discounted significantly because of the substantial restrictions on transfer and the limited redemption rights provided for with respect to the Series B OPPSs.

It is important to recognize that any officer or other employee who is provided the opportunity to invest is under no obligation to exercise that right. The Series B OPPSs must be initially subscribed within 45 days of shareholder approval, if obtained. However, the LLC has the right, but not the obligation, to repurchase units from members whose employment with the company terminates and such units may be re-sold by the LLC to selected executive officers or other key employees of the company. If some of those eligible to participate elect not to participate, the remaining OPPSs shall be retained by United Dominion.

The company s performance for the Series B OPPSs will be measured over a 24-month period beginning June 2003. The starting price for measurement of the Series B OPPSs will be equal to the ending price of the

Series A OPPSs. The LLC that holds the Series B OPPSs will have no right to receive distributions or allocations of income or loss, or to redeem those shares prior to the date, referred to as the Valuation Date, that is the earlier of (i) the expiration of the measurement period for the class (June 2005), or (ii) the date of a change of control of the our company (defined as a Transaction in the limited partnership s agreement of limited partnership).

The Series B OPPSs will only be entitled to receive distributions and allocations of income and loss if, as of the Valuation Date, the cumulative Total Return of our common stock during the measurement period:

- exceeds the cumulative Total Return of the Morgan Stanley REIT Index peer group index over the same period; and
- is at least the equivalent of a 22% Total Return or 11% annualized (the Minimum Return).

If the thresholds are met, holders of the OPPSs will be entitled to begin receiving distributions and allocations of income and loss from the limited partnership equal to the distributions and allocations that would be received on the number of interests in the limited partnership, referred to as the OP Units, obtained by:

(i) determining the amount by which the cumulative Total Return of our common stock over the measurement period exceeds the greater of the cumulative Total Return of the Morgan Stanley REIT Index, which is the peer group index, or the Minimum Return (such excess being the Excess Return);

(ii) multiplying 5% of the Excess Return by our Market Capitalization; and

(iii) dividing the number obtained in clause (ii) by the market value of one share of our common stock on the Valuation Date, as the weighted average price per day of common stock for the 20 trading days immediately preceding the Valuation Date.

For the Series B OPPSs, the number determined pursuant to clause (ii) in the preceding paragraph is capped at 2% of Market Capitalization. Market Capitalization is defined as the average number of shares outstanding over the 24-month period (including common stock, OP Units, outstanding options and convertible securities) multiplied by the daily closing price of our common stock.

If, on the Valuation Date, the cumulative Total Return of our common stock does not meet the Minimum Return, the Total Return of the Morgan Stanley REIT Index and there is no Excess Return, then holders of Series B OPPSs will forfeit their initial investment.

The Morgan Stanley REIT Index will be used as the peer group index for purposes of measuring the Series B OPPSs. The Morgan Stanley REIT Index is a capitalization-weighted index with dividends reinvested of the most actively traded real estate investment trusts. The Morgan Stanley REIT Index is comprised of approximately 112 real estate investment trusts selected by Morgan Stanley & Co. Incorporated and a total equity market cap of approximately $144 billion. Our board of directors has selected this index because it believes that it is the real estate investment trust index most widely reported and accepted among institutional investors. For the historical performance of the Morgan Stanley REIT Index, see the Performance Graph on page 16 of this proxy statement. Our board of directors has the ability to select a different index for future classes of OPPSs. For example, our board of directors may select a different index if it determines that the Morgan Stanley REIT Index is no longer an appropriate comparison for our company; if the Morgan Stanley REIT Index is not maintained throughout the Measurement Period; or for any other reason that the board of directors determines.

Total Return means, for any security or index and for any period, the cumulative total return for such security or index over such period, as measured by the sum of (a) the cumulative amount of dividends paid in respect of such security or index for such period (assuming that all cash dividends are reinvested in such security as of the payment date for such dividend based on the security price on the dividend payment date), and (b) an amount equal to (x) the security price or index value at the end of such period, minus (y) the security price or index value at the beginning of the measurement period.

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LLC Governance and Restrictions on Transfer

The Series B OPPSs cannot be transferred by the LLC without the approval of the managers of the LLC, who are expected to be the two largest participants in the LLC, as long as they are employees of our company, and two representatives of the independent directors of our board of directors. Series B OPPSs may only be transferred by the LLC after targeted returns have been exceeded and a twenty-four-month vesting period from the date of issuance has passed. At that time transfers may only be made to participants or to one of their family members (or a family-owned entity). Individuals who receive Series B OPPSs after the vesting period may exchange them for an equivalent number of OP Units. They may not transfer any Series B OPPSs or OP Units received except to a family member (or a family-owned entity) or in the event of death or disability.

The terms of the operating agreement of the LLC will restrict the participants ability to transfer their interests in the LLC. The LLC will have the right to repurchase the interest of any participant in the LLC at the original purchase price if prior to the end of the twenty-four-month vesting period such participant s employment with our company is terminated for any reason other than by death or disability. The LLC will be used as a vehicle to purchase the Series B OPPSs to ensure that there would be no opportunity for the participants to profit from the ownership of those Series B OPPSs prior to the Valuation Date.

The Series B Out-Performance Partnership Shares are not convertible into shares of the company s common stock. However, in the event of a change of control of our company, the LLC or any participant that holds any Series B OPPSs will have the same redemption rights as other holders of OP Units. Upon the occurrence of a change of control, the LLC or participant that holds Series B OPPSs may require the limited partnership to redeem all or a portion of the units held by such party in exchange for a cash payment per unit equal to the market value of a share of the company s common stock at the time of redemption. However, in the event that any units are tendered for redemption, the limited partnership s obligation to pay the redemption price will be subject to the prior right of us to acquire such units in exchange for an equal number of shares of common stock.

Examples of the Value of Series B OPPSs

The following tables illustrate the value of the Series B OPPSs under different share prices and total returns at the Valuation Date.

This table assumes that the cumulative Total Return of the Morgan Stanley REIT Index is less than the 22% minimum return:

	Value to Shareholders		
Stock Price at Valuation Date	**UDR Total Return (1)**	**Shareholder Value Achieved (2)**	**Value of OPPSs To Management (3)**
		(Million)	**(Million)**
$15.00	11.7%	$235.5	$ 0.0
$16.00	18.6%	$373.2	$ 0.0

$17.00	25.4%	$510.5	$ 3.6
$18.00	32.2%	$647.5	$11.1
$19.00	39.0%	$784.1	$19.0
$20.00	45.8%	$920.4	$27.4

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This table assumes that the cumulative Total Return of the Morgan Stanley REIT Index is 30% and therefore is the operative threshold instead of the 22% minimum return:

	Value to Shareholders		
Stock Price at Valuation Date	UDR Total Return (1)	Shareholder Value Achieved (2)	Value of OPPSs To Management (3)
		(Million)	(Million)
$15.00	11.7%	$235.5	$ 0.0
$16.00	18.6%	$373.2	$ 0.0
$17.00	25.4%	$510.5	$ 0.0
$18.00	32.2%	$647.5	$ 2.4
$19.00	39.0%	$784.1	$10.1
$20.00	45.8%	$920.4	$18.2

(1) Total Return to the UDR shareholders, assuming a 3% dividend growth rate.

(2) Total Return multiplied by beginning market capitalization of $2,008 million (based on 128,641,783 outstanding shares, OP Units, options and convertible securities and an assumed per share price of $15.62 (which is the average of the 52 week high and low sales price of the common stock) at the beginning of the Series B program).

(3) Out-Performance shareholder value multiplied by management participation of 5% subject to 2% dilution limit.

The numbers used in the table are for illustrative purposes only and there can be no assurance that actual outcomes will be within the ranges used. Some of the factors that could affect the results set forth in the table are the Total Return on our common stock relative to the Total Return of the Morgan Stanley REIT Index, and the market value of the average outstanding equity of our company during any Measurement Period. These factors may be affected by general economic conditions, local real estate conditions and our dividend policy.

Possible Negative Effects of the OPPSs

Although we do not believe that the sale of the Series B OPPSs will have an antitakeover effect, the Series B OPPSs could increase the potential cost of acquiring control of our company and thereby discourage an attempt to take control of our company. However, our board of directors is not aware of any attempt to take control of our company and our board of directors has not approved the sale of the Series B OPPSs with the intention of discouraging any such attempt.

If with respect to the Series B OPPSs the Total Return on our common stock over the Measurement Period exceeds both the Total Return of the Morgan Stanley REIT Index and exceeds the Minimum Return, then the LLC that holds the Series B OPPSs could be entitled to receive the same distributions and allocations as the holder of a significant number of OP Units of the limited partnership. This could have a dilutive effect on future earnings per share of our common stock, and on our equity ownership in the limited partnership.

Vote Required and Board of Directors Recommendation

The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting will be required to approve the Series B Out-Performance Program.

Our board of directors recommends that the shareholders vote FOR the proposal to approve the Series B Out-Performance Program.

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PROPOSAL NO. 4

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Our audit committee has selected Ernst & Young LLP, independent accountants, to audit our financial statements for the current fiscal year ending December 31, 2003. We expect that a representative of Ernst & Young LLP will be present at the annual meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to answer any appropriate questions.

Vote Required and Board of Directors Recommendation

Although it is not required to do so, the board of directors is submitting the audit committee s selection of our independent auditors for ratification by the shareholders at the annual meeting in order to ascertain the view of the shareholders regarding such selection. The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting will be required to approve this proposal. Whether the proposal is approved or defeated, the audit committee may reconsider its selection.

Our board of directors recommends that the shareholders vote FOR the ratification of the appointment of Ernst & Young LLP as our independent auditors for the 2003 fiscal year.

VOTING VIA THE INTERNET OR BY TELEPHONE

For Shares Directly Registered in the Name of the Shareholder

Shareholders with shares registered directly with Mellon Investor Services LLC may vote those shares telephonically by calling toll free 1-800-435-6710, or via the Internet at www.eproxy.com/udr.

For Shares Registered in the Name of a Broker or a Bank

A number of brokers and banks are participating in a program provided through ADP Investor Communication Services that offers telephone and Internet voting options. This program is different from the program provided by Mellon Investor Services LLC for shares registered directly in the name of the shareholder. If your shares are held in an account with a broker or a bank participating in the ADP Investor Communication Services program, you may vote those shares telephonically by calling the telephone number shown on the voting form received from your broker or bank, or via the Internet at ADP Investor Communication Services voting Web site (www.proxyvote.com).

DELIVERY OF VOTING MATERIALS

To reduce the expenses of delivering duplicate voting materials to our shareholders, we are taking advantage of new householding rules that permit us to deliver only one set of voting materials, meaning the proxy statement and the 2002 annual report to shareholders, to shareholders who share the same address unless otherwise requested. Each shareholder will receive a separate proxy card or voting instruction form and will therefore retain a separate right to vote on all matters presented at the meeting.

If you share an address with another shareholder and have received only one set of voting materials, you may write or call us to request a separate copy of these materials at no cost to you. For future annual meetings, you may request separate voting materials or request that we only send one set of voting materials to you if you are receiving multiple copies by calling us at (804) 780-2691 or by writing to us to the attention of the Corporate Secretary, 400 East Cary Street, Richmond, Virginia 23219-3816.

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ANNUAL REPORT

We have mailed to each of our shareholders our annual report for 2002, which includes audited financial statements for the year ended December 31, 2002. **We will, upon written request and without charge, provide to any person, solicited hereunder, a copy of our annual report on Form 10-K for the year ended December 31, 2002, including financial statements and financial statement schedules, as filed with the Securities and Exchange Commission.** Requests should be addressed to the attention of the Corporate Secretary, 400 East Cary Street, Richmond, Virginia 23219-3816.

MATTERS TO BE PRESENTED AT THE 2004 ANNUAL MEETING OF SHAREHOLDERS

In accordance with Rule 14a-8 under the Exchange Act, any shareholder who intends to submit a proposal at our 2004 annual meeting of shareholders and who wishes to have the proposal considered for inclusion in the proxy statement and form of proxy for that meeting must, in addition to complying with the applicable laws and regulations governing submission of such proposals, deliver the proposal to us for consideration no later than December 5, 2003. Such proposal should be sent to our Corporate Secretary at 400 East Cary Street, Richmond, Virginia 23219-3816.

SEC rules also establish a different deadline for submission of shareholder proposals that are not intended to be included in our proxy statement with respect to discretionary voting. The discretionary vote deadline for our 2004 annual meeting is February 19, 2004 (45 calendar days prior to the anniversary of the mailing date of this proxy statement). If a shareholder gives notice of such a proposal after the discretionary vote deadline, our proxy holders will be allowed to use their discretionary voting authority to vote against the shareholder proposal when and if the proposal is raised at our 2004 annual meeting, generally without including any disclosure of the proposal in the proxy statement or on the proxy card.

It is important that proxies be returned promptly. We depend upon all shareholders promptly signing and returning the enclosed proxy to avoid costly solicitation. You can save us considerable expense by signing and returning your proxy at once. You may also vote electronically by the Internet or by telephone as shown on the proxy card and as discussed above.

For the Board of Directors

UNITED DOMINION REALTY TRUST, INC.

Mary Ellen Norwood

Corporate Secretary

Dated: April 4, 2003

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APPENDIX A

UNITED DOMINION REALTY TRUST, INC.

CHARTER OF THE AUDIT COMMITTEE

PURPOSE AND AUTHORITY

The Audit Committee (the Committee) is appointed by the Board of Directors (the Board) to assist the Board (i) in fulfilling its responsibilities as to the quality and integrity of the Company s financial records and reports; (ii) to prepare the report that rules of the Securities and Exchange Commission (SEC) require be included in the Company s annual proxy statement; and (iii) oversight of: (a) the integrity of the Company s financial statements; (b) the Company s compliance with legal and regulatory requirements; (c) the independent auditors qualifications and independence; and (d) the performance of the Company s internal audit function and independent auditors.

COMMITTEE MEMBERSHIP

The Committee shall consist of no fewer than three members all of whom meet the independence requirements of the New York Stock Exchange. No Committee member may receive any consulting, advisory or other fees from the Company other than director and committee fees. No Committee member may simultaneously serve on the audit committee of more than two other public company audit committees. Each member of the Committee must be financially literate as determined by the Board, and at least one member shall have accounting or related financial management expertise and must be a financial expert, as defined by the SEC. The Chairman of the Board will be an ex-officio member of the Committee and shall have voting rights in the case of a tie vote.

The members of the Committee and its Chairperson shall be appointed by the Board, on the recommendation of the Governance Committee, to serve an annual term. Committee members may be replaced by the Board.

If the Chairperson is not present, the members may designate an acting Chairperson by majority vote of the membership present.

DUTIES AND RESPONSIBILITIES

General:

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

The operation of the Committee shall be subject to the Bylaws of the Company, as in effect from time to time. The Committee shall have the full power and authority to carry out the following responsibilities:

A. Independent Audit

1. The Committee is responsible for the appointment, compensation and oversight of the Company s independent auditors.

2. At least annually, obtain and review a report by the independent auditors describing (a) the independent auditors internal quality-control procedures, (b) any material issues raised by the most recent internal

quality-control review or peer review of the independent auditors or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditors, (c) any steps taken to deal with any such issues and (d) (to assess the auditors independence) all relationships between the independent auditors and the Company.

3. Review with the independent auditors, prior to the beginning of their audit, the scope of their examination and planning and staffing of the audit.

4. Meet with the independent auditors, without management present, and inquire as to:

   - whether there were any audit problems or difficulties encountered during their audit, including any restrictions on the scope of activities or access to requested information, and management s response;

   - whether there were accounting or disclosure issues not resolved to their satisfaction; and

   - whether there were any other matters (including matters affecting their independence) that should be discussed with the Committee that have not been raised or covered elsewhere.

5. Report the results of the audit to the Board and, if the Committee is satisfied with all of its reviews and discussions, recommend that the audited financial statements be included in the Annual Report on Form 10-K filed with the SEC.

6. Obtain from the independent auditors an annual written communication that is prepared in accordance with Standard No. 1 of the Independence Standards Board delineating all relationships of the independent auditors with the Company as well as the nature and extent of the professional advisory services provided to the Company.

7. Resolve any disagreements between the independent auditors and management.

8. Review and evaluate the independent auditors qualifications, independence and performance, including a review and evaluation of the lead partner of the auditor, taking into account the opinions of Company management and personnel responsible for the Company s internal audit function.

9. Annually consider whether or not a change in the independent auditor is in the best interest of the Company.

B. Interim and Annual Financial Reports

Periodically and to the extent appropriate under the circumstances:

1. Review and discuss the Company s interim and annual financial statements with management and the independent auditors, including the Company s disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations.

2. Generally discuss earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee need not discuss in advance each earnings release or each instance in which the Company provides earnings guidance.

3. Discuss with the independent auditors the results of their review of the interim financial results in accordance with Statement on Auditing Standards No. 71, such that the results are communicated:

   prior to the filing with the SEC of the Company s Quarterly Report on Form 10-Q; and

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either to all members of the Committee or to the Chair of the Committee.

4. Discuss with outside counsel and management the substance of any significant litigation, contingencies or claims that had, or may have, a significant impact on the financial statements.

5. Obtain timely reports from the independent auditors regarding:

   the appropriateness and consistent application of the Company s critical accounting policies and practices;

   all alternative treatments of financial information within generally accepted accounting principles discussed between the independent auditors and management, the ramifications of the use of such alternative treatments and the independent auditors preferred treatment;

   the reasonableness of significant estimates and judgments;

   the clarity and completeness of the Company s financial disclosure practices;

   any other material written communication between the auditors and management, such as any management letter or schedule of unadjusted differences; and

C. Internal Controls

Periodically and to the extent appropriate under the circumstances:

1. Discuss with management the adequacy and effectiveness of the Company s internal accounting and financial controls, including those related to the security of its information systems and risk assessment and risk management.

2. Review the independent auditors letter to management and ascertain that management has adequately responded to the letter.

3. Receive quarterly reports from management on the Company s risk exposure to floating rate debt, and review the terms and market value of all derivative instruments used to manage interest rate and other financial risks.

4. Obtain reports from management, the Company s senior internal auditing executive and the independent auditors that the Company and its subsidiaries are in compliance with applicable laws and regulations, as well as the Company s Code of Business Conduct and Ethics. Review reports and disclosures of insider and affiliated party transactions.

D. Other

1. Pre-approve all non-audit services to be provided to the Company by the independent auditors and confirm that such services are not prohibited by law or the rules of the New York Stock Exchange and are disclosed in the Company s SEC filings.

2. Engage any outside advisors that the Committee determines to be necessary or appropriate and approve the compensation and other retention terms of such advisors.

3. Establish hiring policies for employees and former employees of the independent auditors. Confirm that within the year preceding the start of each year s audit, none of the Company s Chief Executive Officer, Chief Financial Officer, Controller, Chief Accounting Officer or any person serving in an equivalent position for the Company was employed by the auditors or participated in any capacity in the Company s audit.

4. Review with management or the independent auditors changes in, or adoption of, accounting principles and reporting and auditing standards that have had, or may have, an effect on the financial statements.

5. Periodically and to the extent appropriate under the circumstances review with management the Company s major financial exposures and the steps management has taken to monitor and control such exposures, including the Company s risk assessment and risk management policies.

6. Periodically and to the extent appropriate under the circumstances review with management the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company s financial statements.

7. Investigate any other matter brought to the Committee s attention within the scope of its duties and retain outside legal counsel and other experts for this purpose if, in the Committee s judgment, that is appropriate.

8. Obtain from the independent auditors assurance that it has complied with Section 10A of the Securities Exchange Act of 1934.

9. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

10. Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.

MEETINGS

The Committee shall meet at least quarterly, unless otherwise agreed. The Committee may establish its own schedule and notify the Board. The Committee shall meet separately, periodically, with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditors.

MINUTES

The Committee will maintain written minutes of its meeting which minutes will be filed with the minutes of the meetings of the Board.

APPENDIX B

FORM OF

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this Agreement), dated as of , 2003, is by and between United Dominion Realty Trust, Inc., a Virginia corporation (UDRT) and UDRT Maryland, Inc., a Maryland corporation and a wholly owned subsidiary of UDRT (UDRT Maryland).

WITNESSETH:

WHEREAS, UDRT is a corporation duly formed under the laws of the Commonwealth of Virginia;

WHEREAS, UDRT Maryland is a corporation duly formed under the laws of the State of Maryland; and

WHEREAS, the board of directors and shareholders of UDRT and the board of directors and sole shareholder of UDRT Maryland each deems it desirable, upon the terms and subject to the conditions of this Agreement, that UDRT be merged with and into UDRT Maryland and that UDRT Maryland be the surviving entity.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

THE MERGER

Section 1.01. *The Merger*. Upon the terms and subject to the conditions set forth in this Agreement and in accordance with the laws of the Commonwealth of Virginia and the State of Maryland, UDRT shall be merged with and into UDRT Maryland (the Merger). As a result of the Merger, the identity and separate existence of UDRT shall cease and UDRT Maryland, Inc. shall continue as the surviving entity of the Merger (sometimes referred to herein as the Surviving Corporation). In connection with the Merger, the name of UDRT Maryland, Inc. will be changed to United Dominion Realty Trust, Inc.

Section 1.02. *Effective Time*. The parties shall cause the Merger to be consummated by filing articles of merger with the State Corporation Commission of the Commonwealth of Virginia and the State Department of Assessments and Taxation of the State of Maryland, as required by, and executed in accordance with the relevant laws of the Commonwealth of Virginia and the State of Maryland, all to be effective as of the time of acceptance of the articles of merger by the State Corporation Commission of the Commonwealth of Virginia and the State Department of Assessments and Taxation of the State of Maryland (the Effective Time).

Section 1.03. *Effect of the Merger*. At the Effective Time, the effect of the Merger shall be as provided under the laws of the Commonwealth of Virginia and the State of Maryland. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the rights, privileges, powers and franchises of UDRT, shall vest in the Surviving Corporation, and all debts, liabilities and duties of UDRT shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.04. *Subsequent Actions.* If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to continue in, vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties, privileges, franchises or assets of

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UDRT acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the proper officers of the Surviving Corporation shall be and hereby are directed and authorized to execute and deliver, in the name and on behalf of UDRT, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of UDRT or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties, privileges, franchises or assets in the Surviving Corporation or otherwise to carry out this Agreement.

ARTICLE II

CONVERSION OF SHARES

At the Effective Time, by virtue of the Merger and without any action on the part of UDRT or UDRT Maryland, each share of the outstanding capital stock of UDRT shall be exchanged for one share of the outstanding capital stock of UDRT Maryland.

ARTICLE III

GOVERNING LAW

This Agreement shall be construed in accordance with and governed by the laws of the State of Maryland, without giving effect to principles of conflicts of laws.

IN WITNESS WHEREOF, UDRT and UDRT Maryland have each cause