

UNITED DOMINION REALTY TRUST INC

Form DEF 14A

March 28, 2005

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

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
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))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**UNITED DOMINION REALTY TRUST, INC.**

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(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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April 1, 2005

Dear Fellow Stockholders:

Please accept my personal invitation to attend our Annual Meeting of Stockholders to be held on Tuesday, May 3, 2005, at 4:00 p.m. local time at The Jefferson Hotel, 101 West Franklin Street, Richmond, Virginia. The business to be conducted at the meeting is set forth in the notice and proxy statement that accompany this letter. At the meeting we will also review 2004, report on recent financial results and discuss expectations for the future. We will be available to answer your questions during the meeting and afterward.

Your vote is important to us. We hope you will take the time to execute and return your proxy. We rely upon each stockholder to promptly complete, sign and return your proxy card 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 Stockholders, you may withdraw your proxy at the meeting and vote your shares in person from the floor.

I look forward to seeing you on May 3, 2005, 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 1, 2005

**Notice of Annual Meeting of Stockholders  
To Be Held On Tuesday, May 3, 2005 at 4:00 p.m.**

The Annual Meeting of Stockholders of United Dominion Realty Trust, Inc. will be held at The Jefferson Hotel, 101 West Franklin Street, Richmond, Virginia, on Tuesday, May 3, 2005, at 4:00 p.m. local time, for the following purposes:

1. To elect ten directors to serve for the ensuing year.
2. To ratify the appointment of Ernst & Young LLP to serve as independent auditors for the year ending December 31, 2005.
3. To consider and vote upon a proposal to approve the New Out-Performance Program, including the Series C Out-Performance Program, and an amendment to the Series A Out-Performance Program to allow the participants to transfer interests to the company or in exchange for interests in subsequent out-performance programs.
4. To consider and vote upon a proposal to authorize the creation and issuance of a new series of preferred stock to give voting rights to holders of OP Units.
5. To transact such other business as may properly come before the meeting or any adjournment of the meeting.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. Stockholders who owned shares of our common stock or our Series E preferred stock at the close of business on March 1, 2005 are entitled to notice of, and to vote at, the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to ensure 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 meeting. Most stockholders have three options for submitting their vote: (1) via the Internet at <http://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 Maryland corporation, for use at our Annual Meeting of Stockholders to be held on May 3, 2005, 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 and to our board of directors as board or board of directors. The term proxy solicitation materials includes this proxy statement, as well as the enclosed proxy card. References to fiscal 2004 and fiscal 2005 mean our 2004 fiscal year which began on January 1, 2004 and ended on December 31, 2004 and our 2005 fiscal year which began on January 1, 2005 and will end on December 31, 2005, respectively. Our 2005 Annual Meeting of Stockholders to be held on May 3, 2005 is simply referred to as the meeting.

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

These proxy solicitation materials are being mailed on or about April 1, 2005 to all stockholders entitled to vote at the meeting.

**Record Date and Shares Outstanding**

Stockholders who owned shares of our common stock and/or our Series E preferred stock at the close of business on March 1, 2005, referred to in this proxy statement as the record date, are entitled to notice of, and to vote at, the meeting. At the record date, we had 137,023,872 shares of common stock and 2,803,812 shares of Series E preferred stock issued and outstanding. Each share of common stock and each share of Series E preferred stock outstanding on the record date is entitled to one vote.

**Revoking Your Proxy**

You may revoke your proxy at any time prior to the date of the meeting by: (1) submitting a later-dated vote in person at the meeting, via the Internet, by telephone or by mail, or (2) delivering instructions to the attention of the Corporate Secretary at our principal executive office at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129-1540. Any notice of revocation sent to us must include the stockholder's name and must be received prior to the meeting to be effective.

**How Your Proxy Will Be Voted**

Most stockholders have a choice of voting over the Internet, by telephone or by using a written proxy card. Please refer to your proxy card and other enclosures to see which options are available to you.

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,

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FOR the ratification of the appointment of Ernst & Young LLP as independent auditors for fiscal 2005,

FOR the proposal to approve the New Out-Performance Program, including the Series C Out-Performance Program, and an amendment to the Series A Out-Performance Program to allow the participants to transfer interests to the company or in exchange for interests in subsequent out-performance programs, and

FOR the proposal to authorize the creation and issuance of the new series of preferred stock to give voting rights to holders of OP Units in United Dominion Realty, L.P., referred to in this proxy statement as UDR LP, and Heritage Communities L.P.

In addition, if any other matters properly come before the 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 meeting.

**Quorum**

Each share of common stock and each share of our Series E preferred 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 of common stock and Series E preferred stock, taken together, 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 vote your shares 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 of a quorum and to determine whether the requisite number of votes has been obtained to approve the proposal.

**Voting**

***Votes Required***

If a quorum is present, (1) the affirmative vote of a plurality of the votes cast with respect to Proposal No. 1 is required to elect directors, (2) the affirmative vote of a majority of the votes cast is required to approve Proposal No. 2, and (3) the affirmative vote of a majority of the votes cast is required to approve Proposal Nos. 3 and 4, provided the total votes cast with respect to such proposal represents 50% of all shares entitled to vote on the proposal.

***Tabulation***

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***

We intend to treat abstentions and broker non-votes in the following manner:

An abstention occurs when the beneficial owner of shares is present, in person or by proxy, and entitled to vote at the meeting (or when a nominee holding shares for a beneficial owner is present and entitled to vote at the meeting), but such person does not vote on the particular proposal. For purposes of Proposal Nos. 1 and 2, abstentions will not be counted as votes cast for purposes of determining whether stockholder approval has been obtained and therefore will have no effect on the results of the vote with respect to such proposals. With respect to Proposal Nos. 3 and 4, however, abstentions will be treated as votes cast. Therefore, abstentions will have the same effect as a vote against Proposal Nos. 3 and 4.

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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 proposal and has not received instructions from the beneficial owner. Broker non-votes are not deemed to be votes cast for purposes of determining whether stockholder approval has been obtained. Therefore, broker non-votes will have no effect on the voting results for Proposal Nos. 1 and 2. With respect to Proposal Nos. 3 and 4, which require that the total votes cast with respect to the proposal represents 50% of all shares entitled to vote, broker non-votes will have the same effect as a vote against the proposal, unless holders of more than 50% in interests of all securities entitled to vote cast votes for the proposal, in which case broker non-votes will not have any effect on the results of the vote for the proposal.

### **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 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 stockholders 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 stockholders 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 our stockholders by mail, in person, by e-mail and by telephone. We will pay Morrow & Co., Inc. a fee of \$7,500 for its services, plus reimbursement of reasonable out-of-pocket expenses incurred in connection with the proxy solicitation.

### **Assistance**

If you have questions regarding the meeting, you may contact our proxy solicitor, Morrow & Co., Inc. toll-free at 1-800-607-0088 or by email at [UDR.info@morrowco.com](mailto:UDR.info@morrowco.com).

## **CORPORATE GOVERNANCE MATTERS**

### **Corporate Governance Overview**

We believe that effective corporate governance is critical to our long-term success and our ability to create value for our stockholders. During the past year, we have continued to review our corporate governance policies and practices and to compare them against the practices of other public companies. We also have continued to review the provisions of the Sarbanes-Oxley Act of 2002, rules of the Securities and Exchange Commission and the corporate governance rules of the New York Stock Exchange. We will continue to monitor emerging developments in corporate governance and enhance our policies and procedures when our board of directors determines that it would benefit our company and our stockholders to do so.

We maintain a corporate governance page on our website that includes key information about our corporate governance initiatives, including our Statement on Corporate Governance, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers and the charters for the Audit, Compensation and Governance Committees of the board of directors, all of which can be found at [www.udrt.com](http://www.udrt.com) by clicking on Investor Relations. The documents noted above will also be provided without charge to any stockholder who requests them. Any changes to these documents, and any waivers granted by us with respect to our Code of Business Conduct and Ethics and our Code of Ethics for Senior

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Financial Officers, will be posted on our website. A copy of the Audit Committee Charter is attached to this proxy statement as Appendix A.

Our policies and practices are in compliance with the listing requirements of the New York Stock Exchange and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

The board of directors has adopted clear corporate governance policies;

Nine of the ten board members are independent of us and our management;

The independent directors meet regularly without the presence of management;

All members of the Audit Committee, Compensation Committee and Governance Committee are independent directors;

The Chairman and the Vice-Chairman of the Board are independent directors;

The charters of the board committees clearly establish their respective roles and responsibilities;

The board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees;

We have a Code of Ethics for Senior Financial Officers that applies to our principal executive officer and all members of our finance staff, including the principal financial and accounting officer; and

We have a hotline available to all employees, and our Audit Committee has procedures in place for the anonymous submission of any employee complaint, including those relating to accounting, internal controls, or auditing matters.

### **Identification and Selection of Nominees for Directors**

The Governance Committee works closely with the Chairman of the Board and the board of directors to develop criteria for open board positions, taking into account such factors as it deems important, including, among others, the current composition of the board, the range of talents, experiences and skills that would complement those already represented on the board and those that would help achieve the company's goals. The Governance Committee will consider, among other things, whether a potential director nominee has the time available, in light of other business and personal commitments, to perform the responsibilities required for effective service. Applying these criteria, the Governance Committee considers candidates for board membership suggested by its members and other board members, as well as management and stockholders.

Once the Governance Committee has identified a potential director nominee, the Governance Committee, in consultation with the Chairman of the Board and our Chief Executive Officer, will evaluate the prospective nominee against the specific criteria that the Governance Committee has established, as well as the standards and qualifications contained in our Statement on Corporate Governance. If the Governance Committee, in consultation with the Chairman of the Board and our Chief Executive Officer, determines, based upon its preliminary review, to proceed with further consideration, then members of the Governance Committee and the board, as appropriate, interview the prospective nominee. After completing this evaluation and interview, the Governance Committee makes a recommendation to the full board, which makes the final determination whether to nominate or appoint the new director.

Any stockholder who wishes to recommend a prospective nominee for consideration should submit the following information no later than December 31, 2005:

Biographical information about the candidate and a statement about his or her qualifications;

Any other information required to be disclosed about the candidate under the Securities and Exchange Commission's (SEC) proxy rules (including the candidate's written consent to being named in the proxy statement and to serve as a director, if nominated and elected); and

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The names and addresses of the stockholder(s) recommending the candidate for consideration and the number of shares of our stock beneficially owned by each.

Such information should be sent to our Corporate Secretary at our principal executive office at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129-1540.

**Director Independence**

The board of directors has adopted a formal policy that a significant majority of its members should be independent directors who have no material relationship with the company (either directly or as a partner, stockholder or officer of an organization that has such a relationship with the company), as defined under the NYSE listing standards and the company's director independence standards. The board of directors has determined that all directors standing for election are independent under both sets of standards except Mr. Toomey, who is not independent because he is the company's Chief Executive Officer and President. For additional information about the directors standing for election, see Proposal No. 1 beginning on page 10 of this proxy statement. In making these independence determinations, the board of directors considered information submitted by the directors in response to directors questionnaires and information obtained from the company's internal records.

**Independence of Audit, Compensation and Governance Committees**

The Audit, Compensation and Governance Committees consist entirely of non-employee directors who are independent, as defined in the NYSE listing standards and the company's director independence standards. The members of the Audit Committee also satisfy the additional independence requirements set forth in rules under the Securities Exchange Act of 1934.

**Audit Committee Financial Expert**

Each member of the Audit Committee is financially literate, and the board of directors has determined that Mr. Scharar is an audit committee financial expert within the meaning of the SEC's regulations.

**Executive Sessions**

Our non-employee directors hold regularly scheduled executive sessions in which the non-employee directors meet without the presence of management. These executive sessions are expected to occur around regularly scheduled meetings of the board of directors. The Chairman of the Board, or the Vice Chairman of the Board in the Chairman's absence, presides as chairman at the executive sessions of non-employee directors. Both the Chairman of the Board and the Vice Chairman of the Board are non-management directors.

**Directors' Share Ownership Guidelines**

Our Statement on Corporate Governance provides that each director is expected to develop a meaningful equity stake in our company over time and that after the second anniversary of election to the board of directors, each director is required to own a minimum of 5,000 shares of our common stock. Each of our directors currently owns shares in an amount sufficient to comply with these guidelines.

**Compensation Committee Interlocks and Insider Participation**

None of the members of the Compensation Committee during fiscal 2004 or as of the date of this proxy statement is a former or current officer or employee of the company or has any interlocking relationships as set forth in applicable SEC rules. In addition, none of our executive officers serve 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.

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**Communicating with the Board of Directors**

Any stockholder or interested party who wishes to communicate with the board of directors or any specific director, including non-employee directors, the Chairman, or committee members, may write to:

United Dominion Realty Trust, Inc.  
Attn: Board of Directors  
1745 Shea Center Drive, Suite 200  
Highlands Ranch, Colorado 80129-1540

Depending on the subject matter of the communication, management will:

forward the communication to the director or directors to whom it is addressed (matters addressed to the Chairman of the Board will be forwarded unopened directly to the Chairman);

attempt to handle the inquiry directly where the communication does not appear to require direct attention by the board of directors, or an individual member, e.g., the communication is a request for information about the company or is a stock-related matter; or

not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

Any stockholder or interested party may make their concerns known to the non-management directors of the company by contacting the Chairman of the Board, who presides at the executive sessions of the non-management directors, at the address above.

To submit concerns regarding accounting matters, stockholders and other interested persons may contact the company's third-party confidential reporting system via the Internet or by calling a toll-free number. Instructions for making a report are published in the Corporate Governance subsection of the Investor Relations section of the company's web site.

**Board of Directors and Committee Meetings**

The board of directors held eight meetings (including four telephonic meetings) during fiscal 2004. No director attended fewer than 75% of the aggregate of the (1) total number of meetings of the board of directors, and (2) the total number of meetings held by all committees of the board of directors on which he or she served during fiscal 2004. The board of directors has standing audit, compensation, executive and governance committees. The governance committee also serves as our nominating committee.

The board of directors has adopted the following policy on director attendance at meetings: Absent extenuating circumstances, directors are expected to attend in person our Annual Meeting of Stockholders, all regularly scheduled board and committee meetings and to participate telephonically in regularly scheduled board and committee meetings when they are unable to attend in person. All of our directors attended our 2004 Annual Meeting of Stockholders.

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The board of directors has established the following committees to assist it in discharging its responsibilities:

<b>Committee</b>	<b>Members on 12/31/2004</b>	<b>Key Functions</b>	<b>Number of Meetings in 2004</b>
<b>Audit</b>	Robert P. Freeman(1) Lynne B. Sagalyn Mark J. Sandler Robert W. Scharar	<p>Assists the board of directors in its general oversight of our financial reporting, internal controls and internal audit functions</p> <p>Appointment, compensation and oversight of our independent auditors</p> <p>Represents and assists the board of directors in its oversight of:</p> <ul style="list-style-type: none"> <li>the quality or integrity of our financial statements;</li> <li>our compliance with legal and regulatory requirements; and</li> <li>the performance of our internal audit department and independent auditors</li> </ul> <p>Discusses the adequacy and effectiveness of our internal control over financial reporting</p> <p>Oversees our compliance with procedures and processes pertaining to corporate ethics and standards of business conduct</p> <p>Establishes procedures for the receipt, retention and treatment of complaints received concerning accounting, auditing, internal control and financial reporting matters</p> <p>Oversees Risk Management policies and risk assessment</p> <p>Pre-approves all non-audit services to be provided to the company by the independent auditors</p>	7

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<b>Committee</b>	<b>Members on 12/31/2004</b>	<b>Key Functions</b>	<b>Number of Meetings in 2004</b>
<b>Compensation</b>	Jon A. Grove(1) James D. Klingbeil Eric J. Foss Mark J. Sandler	<p>Administers and approves general compensation policies applicable to our key executive officers</p> <p>Reviews and approves compensation for the board and its committees</p> <p>Reviews and ensures the appropriate administration of our compensation and benefit plans, programs and policies</p> <p>Determines and approves the compensation of our Chief Executive Officer ( CEO )</p> <p>Sets annual objectives for, and evaluates the performance of, our CEO, with input from the board</p> <p>Reviews and recommends to the Board short- and long-term compensation for the principal officers of the company who report directly to our CEO</p> <p>Approves all employment and severance agreements for senior vice presidents and above</p> <p>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 programs</p>	5
<b>Governance</b>	Thomas R. Oliver(1) Eric J. Foss Lynne B. Sagalyn Robert W. Scharar	<p>Exercises general oversight of board governance matters</p> <p>Reviews the size, role, composition and structure of our board and its committees</p> <p>Reviews and evaluates the board and its members</p> <p>Serves as the nominating committee for board members</p> <p>Reviews and updates our Statement on Corporate Governance</p> <p>Considers, develops and makes recommendations to the board regarding matters related to corporate governance</p> <p>Conducts an annual assessment of each committee</p>	3
<b>Executive</b>	Robert C. Larson(1) James D. Klingbeil Thomas W. Toomey	<p>Performs the duties and exercises the powers delegated to it by the board of directors</p> <p>Meets only when board action on a significant</p>	-0-



matter is required and it is impractical or not feasible to convene a full meeting of the board of directors.

(1) Committee Chair

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**COMPENSATION OF DIRECTORS**

**2004 Director Compensation**

In fiscal 2004, non-employee directors did not receive any cash compensation for their services other than reimbursement of expenses. Each non-employee director received a grant of 5,000 shares of restricted stock that vested on January 1, 2005.

**2005 Director Compensation**

In 2004, the Compensation Committee retained a nationally recognized consulting firm to assist the Compensation Committee, in consultation with the Chairman of the Board and the full board of directors, in structuring a compensation program for the board of directors. The independent consultant reviewed information concerning director pay from our REIT peer group and the Mercer 350 survey of director pay practices among 350 large industrialized service organizations. The goal of the Compensation Committee and the board of directors was to structure director compensation so that we could attract and retain quality directors and to align director compensation with the goal of increasing dividend income and share price appreciation.

Our compensation program for non-employee directors is designed to attract and retain highly qualified board members who can work with senior management to establish key strategic goals in support of long-term stockholder value creation. The program consists of a combination of cash retainers for board and committee service, service-based restricted stock and performance shares that vest only if our total stockholder return over a three-year period meets or exceeds that of a designated peer group of apartment REITs. Total pay associated with cash retainers and restricted stock is targeted at peer group median levels. If we outperform our peers in terms of total stockholder return, total pay can equal or exceed 75th percentile levels. Annual retainers for board and committee service are set at competitive levels in recognition of the time commitments and responsibility levels associated with serving on public company boards within the current environment.

In December 2004 the board adopted a revised compensation program for directors that provides:

***Retainer***

For 2005, each non-employee director will receive an annual retainer fee of \$40,000 (\$75,000 for a non-employee chairman of the board of directors), which may be taken in cash or shares of restricted common stock. Non-employee directors, other than committee chairpersons, also receive an annual retainer fee of \$5,000 for each committee on which they serve. The chairpersons of each of the Audit, Compensation, Executive and Governance Committees receive an annual retainer fee of \$10,000. These fees were paid in January 2005.

***Stock Grant and Performance Based Stock Grant***

Also in January 2005, each non-employee director received a grant of 2,000 shares of restricted stock that vests one year from the date of grant and a grant of 3,000 shares of restricted stock that vests one-third on each anniversary of the date of grant if the company has met certain performance thresholds. Such 3,000 shares vest over a three-year measurement period from the date of grant on the following basis (1) 100 shares will vest if our total stockholder return (share price appreciation plus dividends paid) during such measurement period is at the 50th percentile of total stockholder return from a REIT peer group index to be selected by the board of directors, (2) 100 shares will vest for each percentage point by which our total stockholder return for such measurement period exceeds the 50th percentile of such peer group index, and (3) the remainder will vest if total stockholder return during such measurement period is equal to or exceeds the 75th percentile of such peer group index.

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Directors are entitled to receive dividends during the vesting period; however, any unvested shares at the end of the three-year vesting period will be returned to us and cancelled. All restricted stock granted to our non-employee directors is priced at the closing price of our common stock on the grant date.

Directors who are also employees of the company receive no additional compensation for service as a director.

We believe that the attraction and retention of quality board members has become more challenging as a result of the Sarbanes-Oxley Act of 2002 and initiatives by the New York Stock Exchange and the SEC. Further, board members in general have seen an increase in time commitments and performance expectations. As a result we expect to continue to review our non-employee director compensation in order to ensure that we are competitive and to allow us to recruit and retain qualified candidates to serve as directors of the company.

**PROPOSAL NO. 1****ELECTION OF DIRECTORS**

Our board of directors is currently comprised of ten members, all of whom are to be elected at the meeting. The board of directors has nominated the persons named below for election as directors at the meeting. All of the nominees are currently serving on the board of directors. 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 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 their respective offices until the next annual meeting of stockholders or until their successors are elected and qualified.

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

<b>Name of Nominee</b>	<b>Age</b>	<b>Position(s) With the Company</b>	<b>Director Since</b>
Eric J. Foss	46	Director	2003
Robert P. Freeman	60	Director	1998
Jon A. Grove	60	Director	1998
James D. Klingbeil	69	Vice Chairman of the Board	1998
Robert C. Larson	70	Chairman of the Board	2000
Thomas R. Oliver	56	Director	2003
Lynne B. Sagalyn	57	Director	1996
Mark J. Sandler	63	Director	1996
Robert W. Scharar	56	Director	1996
Thomas W. Toomey	44	Chief Executive Officer, President and Director	2001

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

**Eric J. Foss** has served as the President of the North America division of Pepsi Bottling Group since September 2001. Previously, Mr. Foss served as Executive Vice President of the North America division of Pepsi Bottling Group, from August 2000 to September 2001. Mr. Foss served as Senior Vice President of Sales and Marketing for the North America division of Pepsi Bottling Group, from March 1999 to August 2000 and was General Manager of European Operations for PepsiCo from December 1996 to March 1999.

**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 to 2001 and a

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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. He 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 currently serves as a director of American Southwest Holdings, Inc., in Phoenix, Arizona.

**James D. Klingbeil** is Vice Chairman of the Board of Directors and he has been the Chairman and Chief Executive Officer of Klingbeil Multifamily Fund IV and Klingbeil Multifamily Fund V, f/k/a American Apartment Communities III, a privately owned REIT based in San Francisco, California, since 1997. He was Chairman and Chief Executive Officer of American Apartment Communities II from 1995 until its merger with the company in December of 1998. He is also Chairman and Chief Executive Officer of Klingbeil Capital Management, The Klingbeil Company and Khempco Building Supply Company. He currently serves as a director of Broad Street Financial and numerous private companies.

**Robert C. Larson** has been Chairman of the Board of Directors since March 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 Intercontinental Hotels Group plc. In addition, Mr. Larson represents Lazard as a director of Destination Europe Limited, Commonwealth Atlantic Properties, Inc., Atria Senior Living Group, L.P., and as a member of the Partnership Committee of DP Operating Partnership, L.P.

**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 Baldrige National Quality Award. 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.** has been a Professor of Real Estate Development and Planning at the University of Pennsylvania, with appointments in both the School of Design (City Planning) and the Wharton School (Real Estate) since January 2004. Previously, she was 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 the Columbia University Graduate School of Business, where she was a professor and the director of the program from 1992 through 2003. 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. She is also on the faculty of the Weimer School for Advanced Studies in Real Estate and Land Economics. Dr. Sagalyn is a trustee and Chair of the Audit Committee of Capital Trust, Inc., 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 on the Advisory Board of the Taubman Center for State and Local Government at the J.F.K. School of Government at Harvard University. She has also served on the New York City Board of Education Chancellor's Commission on the Capital Plan.

**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,

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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 Association of Attorneys-CPAs. Mr. Scharar was a director of South West Property Trust Inc. at the time we acquired South West in 1996. Mr. Scharar is also a certified public accountant licensed in Florida.

**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. He currently serves as a member of the board of the National Association of Real Estate Investment Trusts and the National MultiHousing Council and he serves as Co-Chairman of the Homeland Security Task Force of the Real Estate Roundtable.

**Vote Required and Board of Directors Recommendation**

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

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

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