

Prime Outlets

Acquisition Date:	June 2008
Acquisition Price:	\$456.1 million
Price per Sq Ft:	\$253
Occupancy Rate:	93.4%
Year Built:	1986-2007
Total Sq Ft:	interests in 7,288,444
Cap Rate:	7.2%
<i>Cap Rate equals net operating income divided by the acquisition price.</i>	



Prime Outlets, San Marcos, TX

Property

The Lightstone Value Plus REIT (LSVP) is acquiring interests (varying from 22.54% to 25.00%) in twenty factory outlet centers managed by Prime Outlets and located in fifteen states. By acquiring these interests from a minority owner, LSVP is becoming a co-investor, pari passu with Lightstone. Tenants include Gucci, Giorgio Armani, Victoria’s Secret, Coach, Ann Taylor, Polo Ralph Lauren, Saks Fifth Avenue, Gap, Nike and LL Bean. In the first quarter of 2008, these properties produced net operating income (NOI) growth of 9.2%.

Factory Outlet Centers

Factory outlet centers provide shoppers with an attractive value proposition and retailers with a cost effective distribution channel. Manufacturers selling in factory outlet centers are often able to charge lower prices by eliminating the third-party retailer. During the economic downturn in the early 1980s, outlet centers gained popularity as decreased levels of consumer discretionary income generated awareness among consumers seeking designer merchandise and retailers seeking to maximize the profitability of surplus stock. By the 1990s, manufacturers’ outlets ranked as the fastest growing segment of the retail industry. Centers were located closer to major urban areas and evolved from bare-bones storefronts to true lifestyle centers.

Looking at the effects of the recent downturn, we suspect some sales have migrated to outlet centers. For the most recently reported quarter (ended March 31, 2008), Simon Property Group reported that sales at its regional malls increased only 0.8% while sales at its Chelsea outlet centers grew 5.4%. Versus the prior year, the top three outlet companies all reported increases in net operating income: Chelsea showed a 4.1% increase; Tanger was up 5.7%; and Prime Outlet’s NOI grew 9.2%.

The Opportunity

LSVP is acquiring these outlet center interests from an NYSE-listed mortgage REIT, which has been a

July 2008: This transmittal must be preceded or accompanied by a prospectus for the securities of the issuer described herein. This material must be read in conjunction with the prospectus in order to fully understand all the implications and risks of the offering of securities to which this material relates. For additional prospectuses, please call Lightstone Securities at 888-808-REIT (7348).



Prime Outlets International, Orlando, FL

co-investor with Lightstone since their original acquisition. Recently, the seller's stock has been adversely affected by the credit crisis and the related decline in the value of mortgage finance companies. With its shares trading at a four-year low, the seller is seeking to exit the investment to evidence a successful round-trip investment and to create liquidity. The LSVP's acquisition of these partnership interests represents an "off-market," privately negotiated and opportunistic transaction based on the seller's liquidity needs and Lightstone's ability to provide an exit.

Given the seller's low tax basis in the ownership entities, the transaction also needed to be structured to provide it with tax protection for a five-year period after the closing date. LSVP is advancing \$91.2 million in cash and shares of its operating partnership. That amount plus a pro rata share of existing mortgage debt equals the \$456 million acquisition cost. The existing mortgage debt has an average interest rate of 5.54%. Lightstone believes LSVP was able to negotiate favorable pricing because the transaction involves the acquisition of an illiquid, minority partnership interest from a motivated seller.

Additional Growth from Development

LSVP is also receiving rights to four development projects scheduled to be completed in 2010-2012. This pipeline represents additional upside in the investment, and LSVP could use dividend reinvestment proceeds to fund its share of their cost.

Comparables

In looking for comparable property sales, the most recent one that involved more than a million square feet was the Chelsea/Simon merger. It was reported as a 7.2% cap rate and \$289 per square foot in 2004. The most recent outlet center sale comparable to these properties being acquired occurred in San Diego in August of 2007. It transacted at a cap rate of 5.3%, representing \$534 per square foot.

We encourage you to read...

A detailed description of this property, the rest of the portfolio and the risks of investing are included in the Prospectus and any subsequent Supplements. Risks include, but are not limited to the fact that the profitability of our acquisitions is uncertain.

- We may lose some or all of our investment.
- Our charter permits \$3 of debt for each \$1 of equity.
- We cannot assure you that we will be able to achieve cash flows necessary to pay both our expenses and dividends or to maintain dividends at any particular level, if at all.
- Our shares are illiquid and no public market for our shares may ever exist.