

Southeast Apartments
Tampa, FL; Greensboro and Charlotte, NC

Acquisition Date:	November 2007	Amenities Include:	swimming pools, clubhouse, tennis courts, fitness center
Purchase Price:	\$96.7 million	Cap Rate:	7.4%
Appraised Value:	\$109.0 million	Cap Rate equals net operating income divided by the purchase price.	
Average Occupancy:	94%		
Year Built:	1980-1987		
Total Apartments:	1,576		

Lightstone’s Approach

At the moment, more conservative appraisals, reduced availability of mortgage financing, and weakness in the residential real estate market are hobbling the sale of apartment properties. These five properties are being acquired at a price that is 35% below our estimate of their current replacement cost.

The REIT’s short-term strategy is to acquire properties that are well-maintained on the exterior but have dated interior finishes and below market rents. Highly comparable properties that have performed interior and amenity upgrades in these three markets are receiving monthly rents \$40 to \$100 higher than those at the properties being acquired by the REIT. While it’s only one factor, increasing rents over an appropriate period of time by that amount would provide an 8-15% boost to net operating income. Longer term, we think apartment prices will reflect supply and demand changes that are underway. New apartment construction has been below average the past several years. On the demand side, apartments absorb the declines in home ownership due to lack of affordability, and the echo boom—the demographic bulge of baby-boomer offspring—is entering prime renting age.



Eastchase, Charlotte



Timber Creek, Charlotte



Wendover, Greensboro



Beacon Glen, Greensboro



Beacon Isles, Tampa

November 2007

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).

The Acquisition

These properties were owned for ten years by Camden Properties, whose stock suffered a decline starting in the third quarter that eliminated more than \$700 million of market value. Recent reports from research analysts point to “negative earnings momentum” and indicate that Camden apparently plans to offset reduced operating results with some other source of earnings. Some publicly traded REITs have been selling properties, which can bolster earnings and also generate funds that can be used to buy back stock. Analysts have suggested that asset sales would help Camden demonstrate the value of its portfolio.

These properties were originally marketed in three separate efforts, and we believe the acquisition price in part reflects Lightstone’s ability to purchase them all as a single portfolio. The Fannie Mae mortgage is fixed for seven years at an interest rate of 5.4%.

The Markets

Tampa

From 2000 to 2005, Florida added 34% of all the new jobs created in the United States, and Tampa’s population grew at three times the national average. The condominium boom in Tampa spawned new building, as well as the conversion of apartments to condos, creating about a seven-month supply of for-sale inventory that likely is, or will become, rental supply. We estimate this overhang will be absorbed in Q2 of 2008. In the meantime, we note that the average single family home/condominium in Tampa sells for \$203,000 and, at that price, a condo owner would have to charge 50% above the current rent on the REIT’s apartments in order to breakeven.

Greensboro

Historically, Greensboro demonstrated relatively low job growth, but it has become an attractive location for companies and is now diversifying from manufacturing into white collar, high-tech industries. In the last twelve months, 23,000 jobs were created locally. In 2005, Dell added a computer facility, and FedEx is constructing a mid-Atlantic hub expected to generate 20,000 new jobs.

Charlotte

The Charlotte market has historically had some oversupply and apartment owners have offered concessions to prospective tenants. More recently, however, the cost of construction has been limiting the creation of new supply. Meanwhile, the population growth in Charlotte is running three times the national average. We think the supply-demand relationship for apartments is near a turning point.

We encourage you to read...

A detailed description of these properties, 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.