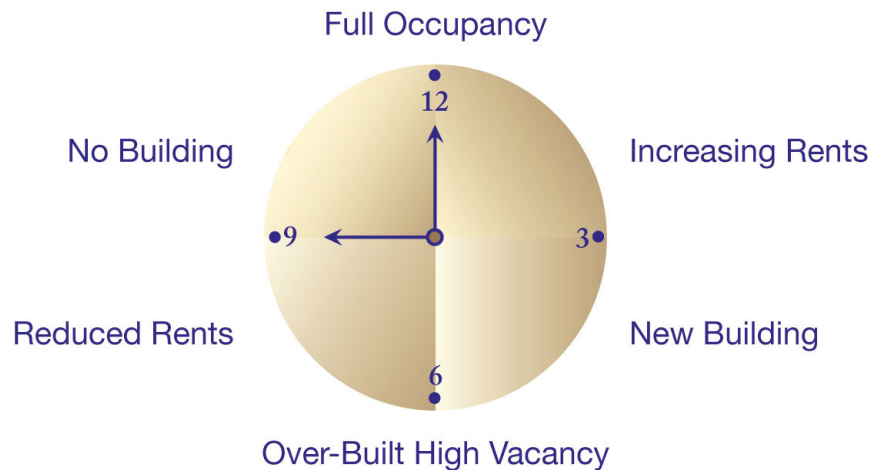


October 15, 2009

Dear Shareholder:

Many are comparing the current real estate market with the “RTC era” of the early 1990’s, when the government was taking over Savings & Loans and selling their real estate holdings on a large scale. Mark Twain suggested that while history may not repeat itself exactly, it does rhyme, and today we see parallels with the early 1990’s. Below is a clock face that illustrates the real estate cycle: full occupancy brings high rents and prices but also leads to more construction. The additional supply causes vacancy and lower rents, which in turn shut down the creation of new supply until economic and population growth again lead to full occupancy and high rents, which... but you get the picture. In the cycle it is now about 9:00 and, as you may know, commercial real estate prices are down 35 or 40%. This time the oversupply resulted less from over-building and more from reduced demand for real estate as a result of the recession. The oversupply of real estate is not as great as it has been in past cycles. This time, however, a dramatic reduction in mortgage supply has exacerbated price drops.

What time is it?



The most challenging properties at present are the apartments or “multi-family properties,” as they are known. Competition from the depressed (cheap) house market has grown severe; while significant job losses are resulting in fewer renewals and more rent payment defaults. We are working to keep your apartments as full as possible and to reduce costs.

With consumers willing to drive the extra mile, the discount prices available at outlet centers are enabling them to perform better than many other types of stores or “retail properties.” We expect sales in your outlet centers will be about flat for 2009, while retail sales overall will be down significantly. The solid sales performance has allowed the outlet centers to perform in line with expectations so far, and we expect that they will continue to perform well. Good sales support both occupancy and the level of rent that tenants will pay. Nevertheless, like all landlords in the current environment, we have to worry about the financial viability of your tenants. The lease may not get paid if the tenant goes out of business, and that is a risk we face in both the power centers and outlet centers.

Occupancy at your two hotels was strong through the summer, averaging 75%, but has fallen off in September to 57%. The business is seasonal, so the drop off in occupancy was expected. And, of course, even in this dip it’s above the 42% occupancy that existed when your fund acquired these properties. The bigger factor for your hotels is the on-going level of business travel and activity.

Your industrial properties show signs of the recession. Baton Rouge and New Orleans are 96% and 86% occupied respectively and performing relatively well in this environment. San Antonio is weaker at 76%. We still do not have a tenant for the Sarasota property, but you will recall we bought that property at what was a cheap price because it was empty at the time.

Weak levels of business activity, including the downsizing at banks and brokerage firms as well as weak fashion sales, have reduced the demand for space in New York. Rents and property values are both down. Although rents at 1407 Broadway have been similarly impacted, the good news is that we seem to have found a bottom and are having success in renewing tenants currently in the building.

An appraisal of all your fund’s investments is underway. This will lead to a valuation for your shares, which we expect you will receive prior to yearend. Shares of your fund will remain illiquid and will not be traded, but you will get a good sense of how they are doing. Like stocks and many other investments, commercial real estate overall has declined in value. Earlier in this letter we suggested it is down 35 to 40%. Over the next year or two, good real estate will be available at these low prices as mortgages come due and sellers can’t wait any longer. It may even be a once in a lifetime opportunity for investors. But our focus now is on the properties your fund owns. We would like to think that our bargain purchasing and the proactive improvements to your properties have offset to a degree the significant overall decline that has occurred in commercial real estate prices. We think your properties have done better than most commercial real estate and it will turn out that the value of your LSVP shares is not down 35 to 40%. In the next couple months, when the valuation of your investments is completed, we will have a pretty good handle on that.

At the end of the second quarter your fund was able to add to its investment in Prime Outlet Malls by buying out the remaining minority owner. This is likely to be the last significant investment your fund will make. Reflecting what has happened with commercial real estate prices; the price was less than what your fund paid for its original investment in Prime Outlets. Often real estate prices are expressed as “cap rates,” a term which means the current yield the property is generating – in other words, the property’s annual profit divided by its cost. At the price your

fund paid for its newest investment, the cap rate or current yield is 9.3%. LSVP now owns all of St. Augustine and just over a third of the other Prime Outlets in which it has invested. Lightstone has owned the rest for some time. So we are all in it together, and it is likely we will exit together.

To save costs and trees, we are including only the important financial statements with this quarterly letter. To see the entire 10-Q report for the second quarter, you can go to your fund's website: <http://www.lightstonereit.com/prospectus.cfm>. At the lower left you will see "[Click here](#) to go to the SEC Edgar page." If you do click there, you'll be taken to the page on the SEC's website where all of your REIT's reports and filings are posted. The column on the left shows you the type of filing, and you can click on the most recent 10-Q. Should you prefer that we send you a hardcopy, just let us know.

Your dividend continues at a 7% annual rate. In the second quarter it was fully covered by "AFFO," which, loosely put, is a measure of the cash flow generated by your fund. We will report again in January.

Sincerely,



David Lichtenstein
Chairman



Stephen H. Hamrick
President