

German Property Sector News:

SDIC Update

SDIC announced on 16 January 2009 that, as a result of falling interest rates, the accounting value of its swaps as at 31 December 2008 is expected to be negative, with the corresponding loss on the Company's income statement expected to be approximately €100m. This will impact the Company's NAV, but will not affect cash flow, the value of the underlying property portfolio or the associated LTV banking covenant.

On 26 January 2009, Speymill plc announced the suspension of their shares from trading on AIM, whilst the financial position of a subsidiary (Speymill Contracts Ltd) is clarified. The Board of SDIC has put out an announcement clarifying the Company's position, stating that the Manager, Adviser and Investment Advisor continue to operate as normal.

Allianz to Start Hunting in Global Real Estate

Allianz SE's big push into property probably could not be more timely. Valente, head of portfolio management and strategy at Allianz's property management arm, is fronting an aggressive expansion of Allianz Real Estate that will see a doubling of real estate assets under management from €20bn to €40bn over 5 years, equivalent to an increase in real estate holdings from just over 3% to 7% of total assets by 2013.

"We're looking at direct investment, funds, joint ventures, co-investment deals, company debt. We are looking at the whole capital markets structure rather than just bricks and mortar," Valente said, citing the once-in-a-generation buying opportunities likely to be thrown up as property markets adjusted downwards in the wake of a global financial crisis. About 60% of Allianz's real estate investments are currently located in Germany, with the company planning to maintain a 60% to 70% weighting within the euro region.

Hypo Real Estate to be Resuscitated Yet Again?

Berlin has been discussing taking a 70% stake in stricken investment bank Hypo Real Estate (HRE) in return for more state aid. German parliament needed to get involved in the HRE discussions because German law will have to be amended to allow the state to go ahead with its stake purchase plans.

The €480bn bank bailout fund currently bars the government from taking a stake in a bank exceeding 33%. What's more, takeover law requires buyers of more than 30% of an incorporated company to offer to purchase all remaining shares. HRE has already been bailed out twice, with a total of €92bn in debt guarantees and credit lines. HRE is a major player in the Pfandbrief (German covered bond) market, with officials keen to come to its aid to prevent sending shock waves through the financial system.

Fortress Seeks Fresh Capital for GAGFAH Debt

Fortress Investment Group wants to raise US\$80m to pay down debt used to buy shares in German apartment landlord housing firm GAGFAH and to put cash to work in two other property investments. Falling property values and problems selling assets have left Fortress short of money to repay loans or in some cases to meet investor redemptions.

The money is needed for the Fortress Investment Fund III, a US\$2bn pool raised in 2004 to invest in US and European real estate related businesses. Fortress needs US\$35m to pay down margin debt on GAGFAH shares, US\$20m each to prop up European property firm Eurocastle and US residential loan-servicing company Nationstar Mortgage. It is unclear how the remaining US\$5m will be used.

German Property Sector News: (cont'd)

Shortage of New Apartments in Germany Forecast

Germany needs to build approximately 400,000 apartments a year through to 2025 to meet demand for accommodation, according to a survey by the Eduard Pestel Institute. Less than 200,000 apartments were constructed last year. The shortage of homes in cities such as Munich, Cologne and Hamburg has made rents unaffordable for many people.

Berlin Puts Portfolio Up for Sale

The State of Berlin has announced this month that it will put its real estate company, Berliner Immobilien Holdings (BIH), on the market despite the global economic conditions. BIH owns a portfolio consisting of some 39,000 apartments and 3,000 commercial units with a market value of €4.5bn. Gross rental income for the entire portfolio is c.€400m, with approx. €140m of gross rents being generated by the apartments.

German Commercial Property to Fall Amid Distressed Sales

Disposals of real estate by sellers in distress are expected to increase in Germany this year, according to an Ernst & Young survey. However, German property prices are expected to fall less in comparison to more volatile markets such as the UK, Spain or Ireland. Private investors and other long-term investors, notably insurance companies and sovereign wealth funds, were expected to be the most active buyers throughout 2009.

German Economic News:

Export Champion Relegated by Global Recession?

The German economy is expected to shrink by 2.3% this year, according to a Morgan Stanley research note. This means that 2009 would mark the sharpest GDP fall in post-war history, leaving Germany near the bottom of the industrialised-country growth league. This time around, however, the sharp downturn is mainly due to external factors. While an outright credit crunch remains a risk to domestic demand, the non-financial sector has little reason to deleverage as it has decreased rather than increased its leverage ratios in the last ten years.

The fact that corporates are scaling back production aggressively can thus be seen as good news as it limits an unwanted rise in inventories. Compared with the previous major recessions, the structure of the economy has changed the face of manufacturing. There is a key difference between the current downturn and the one in the early part of this decade. Back then, Germany was seen as the sick man of Europe, mired in deep-rooted structural problems. Today, Germany is in for a major cyclical downturn, but it does so on a much stronger structural footing. In fact, the downturn is the first test of the greater flexibility and the resulting resilience gained by Germany through years of relentless corporate restructuring—a test that it will likely pass with good grades.

Slight Sentiment Improvement in Germany

In a separate report, also by Morgan Stanley, the ZEW business projections rose to a reading of -31.0 in January, up from after -45.2 in December. Similarly, the Ifo institute's Business Climate Index showed an increase to 83 from 82.7 in December 2008; the first rise in eight months, beating the median analyst forecast of 81. Participants in a separate survey by King Sturge considered residential real estate the most stable segment for another month running, with the residential sector viewed to be the least risky and volatile investment.

Speymill Deutsche Immobilien Company plc (AIM: SDIC) is a pan-German residential property investment company which listed on AIM on March 2006, raising £170m on admission. In May 2007, the Company raised a further €250m through a placing of C Shares which were admitted to trading on AIM on 10 May 2007. The C Shares were converted to Ordinary Shares on an NAV-to-NAV basis on 16 October 2008.

The Company's objective is to provide Shareholders with an attractive level of income together with the prospect for long-term capital growth. The Manager is Speymill Property Group Limited and the Investment Adviser is GOAL Service GmbH. The Manager and Investment Adviser are responsible for identifying new investment opportunities. The Manager and Investment Adviser are subsidiaries of Speymill Plc (AIM: SYG).

To read previous editions of Speymill Deutsche Monthly Monitor please go to: www.sdic.co.im (News & Reporting, Miscellaneous)

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Speymill Deutsche Monthly Monitor January 2009 continued

German Residential Property Focused Companies

Company	Ticker	Price (€) 27/11/08	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV (%)	Price/ NAV
GAGFAH	GFJ.DE	2.99	-76%	675	10,586	64%	42%
Deutsche Wohnen	DWNI.DE	1.11	-50%	293	3,478	62%	33%
Speymill Deutsche Immobilien	SDIC.L	0.08	-91%	26	1,476	76%	6%
Colonia Real Estate	KBU.DE	2.73	-84%	62	988	57%	34%
TAG Tegernsee	TEG.DE	1.68	-75%	55	911	59%	15%
Puma Brandenburg	PUMA.L	0.48	-45%	67	782	65%	44%
Bau-Verein Hamburg	BVH.DE	2.00	-57%	47	366	58%	28%
Franconofurt	FFM.DE	3.09	-64%	27	161	46%	27%
<i>Weighted Average NAV Valuation *</i>							

Trading Companies

Patrizia	P1Z.DE	1.65	-71%	86	1,560	76%	37%
Estavis	E7S.DE	1.67	-89%	14	1,189	59%	14%
Vivacon	VIA.DE	2.51	-81%	50	258	44%	28%
<i>Weighted Average NAV Valuation*</i>							

*Weighted by Market Capital

German Commercial Property Focused Companies

Company	Ticker	Price (€) 31/10/08	Change YTD	Market Cap (€m)	Total As- sets (€m)	LTV (%)	Price/ NAV
IVG	IVG.DE	4.69	-80%	544	9,004	68%	22%
Eurocastle	EU1.DE	1.00	-96%	64	6,697	82%	4%
ORCO	ORC.FP	8.32	-90%	91	3,051	50%	8%
Treveria	TRV.L	0.07	-91%	45	2,466	75%	6%
DIC Asset	DAZ.DE	4.60	-79%	144	2,211	71%	24%
Deutsche Euroshop	DEQ.DE	21.10	-10%	725	1,965	46%	81%
Develica Deutschland	DDE.L	0.08	-89%	18	1,194	71%	8%
IMW Immobilien	GARY.DE	18.00	-36%	274	896	63%	84%
Deutsche Land plc	DLD.L	0.07	-91%	45	675	70%	10%
Hamborner	HAB.GR	5.95	-34%	135	222	16%	17%
<i>Weighted Average NAV Valuation*</i>							52%

Speymill Market Commentary

Residential

Deutsche Wohnen significantly outperformed the German residential sector this month with its share price increasing 21% over the period. This improvement could be due to an open letter sent out by management to shareholders stating that the Company is expected to "exceed its operative goals" and has "laid a foundation to further increase efficiency". The only other listed German residential company to see its share price increase was Puma Brandenburg, with a rise of 7%.

Gagfah, whose market capitalisation continues to dominate the sector, saw the largest share price decrease of 27%, corresponding to a €246 million reduction in market capitalisation. This drop has reduced Gagfah's share of sector market capitalisation from 62% to 54%. Bau-Verein Hamburg saw a similar share price decrease of 26%. The discount to NAV of the German listed residential sector now stands at a weighted average of 63% (69% excluding Gagfah). On 29 January 2009, SDIC was trading at €0.08, 93% discount to NAV, the largest in the sector. Weighted average share price decrease this month was 11.3%.

Commercial

In terms of share price percentage increase, Eurocastle performed significantly better than any other company in the German commercial sector this month with a rise of 67%. This result should be put into context, the Company's discount to NAV has consistently been the highest in the sector (98% at the end of last month). The price increase from €0.60 to €1.00 has slightly reduced the discount to NAV although it is still 96%. ORCO, another commercial company that trades at less than 10% of NAV, saw its share price increase by 29%.

The performance of the remaining tracked German commercial companies can be split into two groups: those who performed poorly with share price decreases of 10-25% (Deutsche Euroshop, IMW Immobilien, IVG & DIC Asset Management) and those whose share price changed sub 6% (Hamborner, Treveria, Develica Deutschland, Deutsche Land). In this first month of 2009, the German commercial sector outperformed the residential sector in terms of share price performance, with a weighted average market capitalisation decrease of 9.2%.

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