

German Property Sector News:

German Home-building at Lowest Point Since Reunification

Recent figures released by Germany's Federal Statistics Office show that the number of new homes built in 2008 was the lowest since German reunification two decades ago. A total of 176,000 residential units were built last year, 16.5% less than in 2007, and 70% less than were built in 1995 when 603,000 new dwellings were completed. The main German construction industry association, the Hauptverband der Deutschen Bauindustrie, expects about 180,000 units will be built in 2009, well short of the 250,000 units per annum which it believes are required to meet demand.

Creditors Circle Vivacon AG

All is silent at the previously communicative Cologne-based listed property group Vivacon AG, according to a REFIRE article, after four of its subsidiaries filed for insolvency last month. According to the article, Vivacon had until 31 July to come to an agreement with its bankers to stave off full bankruptcy.

Vivacon has previously stated that it was suffering "an acute liquidity crisis", and has been negotiating with its twelve creditor banks about extending agreements and finding 'out-of-court' solutions to its funding crisis. Germany's Postbank, as principal financier of the holdings in the four subsidiaries and other Vivacon assets, has started moving to take control of the properties, over which it has a priority claim.

Most of Vivacon's properties were bought in 2007 with a view to a quick resale, and were financed with short-term loans, before the credit crunch struck. The company said it needs about EUR 116m to survive to the end of the year. In a bid to raise cash, Vivacon is trying to sell part of its project development business, involving five development projects in Berlin, Hamburg and Dusseldorf, with a total project volume of EUR 345m.

Surprise Decline in German Residential Foreclosures

Figures released by specialist trade publication Argetra show that for the first six months of 2009, about 45,000 foreclosures took place across Germany—down 2.8% on the corresponding period last year. By comparison with European neighbours such as the UK and Spain, the number of foreclosures in Germany has been falling steadily for the past three years, with 2008 seeing 3.7% less foreclosures than in 2007.

German Real Estate Climate Continues Improvement

Despite the gloomy economic background, the monthly King Sturge Real Estate Economy Index offered some grounds for optimism, showing further improvement this month. The sentiment indicator improved by 6% from 55.6 to 58.9 points. The Investment Climate index rose by 8.7% to 61.3 points while the Rental Climate, Retail Climate and Residential Climate indices all posted gains. The Residential Climate Index continues to lead the sector indicators, with a value of 111.2 points.

The Real Estate Economic Situation, based on macroeconomic fundamentals, perked up for the third time in as many months. At 130.6 points, the 2.6% increase over the previous month's value of 127.3 points would qualify, in strictly technical terms, as a shift in trend. According to Sascha Hettrich, Managing Partner of King Sturge Deutschland, the substantial improvement in the Investment Climate marked the time for "anti-cyclical entry into the real estate market".

German Property Sector News (cont'd):

Treibreu Group Buys Eastern German Portfolio

The low-profile, privately-owned Treibreu Group emerged recently as the buyer of a EUR 64m residential property portfolio previously held by the insolvent Japanese Creed Corporation. According to the Berlin-based independent legal practice FPS, which advised Treibreu on the acquisition, the portfolio consisted of 58 mainly residential properties in Berlin, Dresden and Leipzig. The properties had previously been held by two Dutch subsidiaries of Creed, which is currently in administration under the supervision of the courts in Tokyo.

Treibreu Group is a privately-owned property investment vehicle backed by a number of wealthy families and plans to build up a further domestic residential portfolio, according to FPS. The group now owns over 120,000 sqm of residential property in Bonn, Berlin, Leipzig and Dresden.

German Economic News:

German Open-Ended Funds Experienced Inflows in 1H2009

German open-ended property funds recorded EUR 3.1bn in net inflows over the first six months of 2009, bringing total fund volume to EUR 87.5bn at end-June compared with EUR 87.2bn in the same period in 2008, according to fund industry body BVI.

In terms of total volume, open-ended property funds were the third largest investment category in the first half of the year, after equity funds (EUR 155.7bn) and interest rate funds (144.1 bn). Open-ended funds raised EUR 900m in June 2009 alone.

Hypo Real Estate in Need of Fresh Funds

Hypo Real Estate, now known as Deutsche Pfandbriefbank AG, may need to tap the government for even more capital than previously expected, according to various media reports. The bank's capital needs had been put at between EUR 6 and 10bn, but the group's chairman Michael Endres was reported by Germany's Welt am Sonntag as saying he "would not be surprised if an injection of EUR 10bn may still not be enough". Endres said in an interview that the bank "clearly has a solvency problem."

Deutsche Pfandbriefbank has already received over EUR 100bn of government aid in the form of guarantees and credit. Germany's bank-rescue fund Soffin now owns 90% of the bank and intends to squeeze out the remaining shareholders through a forced acquisition of their shares.

German Business Sentiment Remains Positive

The ZEW business expectations index corrected slightly in July to a reading of 39.5, down from 44.8. However, despite the decline—the first such decline since October 2008—the ZEW business expectations remain above their long-term average of 27. Hence, according to Morgan Stanley, "we would not view the correction as a first sign that the recovery is going to falter."

Meanwhile, the Ifo Business Climate Index rose again in July to 87.3 from 85.9 points the previous month. The Business Situation Index rose to 84.3 from 82.4 points, while the Business Expectations Index rose to 90.4 points in July from 89.5 points the previous month. According to Citigroup, the improvement "reflects the weaker euro and a more upbeat view on global demand".

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 a 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).

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German Residential Property Focused Companies

Company	Ticker	Price (€) 30/07/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/ NAV
GAGFAH	GFJ.DE	5.70	35%	1,287	9,853	68%	42%
Deutsche Wohnen	DWNI.DE	10.19	13%	269	3,303	67%	27%
Speymill Deutsche Immobilien	SDIC.L	0.22	110%	74	1,482	78%	25%
Colonia Real Estate	KBU.DE	2.88	-16%	82	835	67%	24%
TAG Tegernsee	TEG.DE	2.85	33%	93	629	86%	31%
Puma Brandenburg	PUMA.L	0.69	33%	95	681	74%	48%
Bau-Verein zu Hamburg	BVH.DE	2.18	-3%	51	131	146%	41%
Franconofurt	FFM.DE	3.12	4%	28	62	108%	36%
IMW Immobilien	GARY.DE	11.90	-16%	196	976	63%	61%
Taliesin	TPF.LN	7.38	6%	26	95	60%	73%
Weighted Average NAV Valuation *							41%

Trading Companies

Company	Ticker	Price (€)	Change	Market Cap	Total Assets	LTV	Price/ NAV
Patrizia	P1Z.DE	2.97	63%	155	1,517	72%	53%
Estavis	E7S.DE	1.45	-24%	12	250	30%	13%
Vivacon	VIA.DE	0.61	-86%	12	952	47%	5%
Weighted Average Price/NAV*							47%

*Weighted by Market Capital

German Commercial Property Focused Companies

Company	Ticker	Price (€) 26/06/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/ NAV
IVG	IVG.DE	4.66	-27%	541	7,876	71%	20%
Eurocastle	EUI1.DE	0.50	92%	32	7,508	77%	3%
ORCO	ORC.FP	6.25	-5%	68	2,466	62%	7%
Treveria	TRV.L	0.13	76%	80	2,236	74%	15%
DIC Asset	DAZ.DE	4.95	-29%	155	2,215	69%	30%
Deutsche Euroshop	DEQ.DE	20.63	-18%	780	2,007	49%	74%
Develica Deutschland	DDE.L	0.06	-33%	14	1,194	68%	45%
Deutsche Land plc	DLD.L	0.13	76%	80	670	66%	20%
Hamborner	HAB.GR	7.85	37%	179	226	29%	69%
Weighted Average Price/NAV*							46%

Speymill Market Commentary

Residential

Bau-Verein zu Hamburg and TAG Tegernsee were the best performing residential stocks for the month of July. Both companies saw share price increases of 17% for the month. SDIC's share price remained flat throughout the month of July, closing at 22 euro cents per share, exactly the same as the previous month. Overall, SDIC remains the best performing residential stock this year, with a YTD share price increase of 110%. IMW was the worst performing residential company in July with a share price decline of 21%, softening the weighted average P/NAV for the sector, which dropped from 42% in June to 41% in July.

Vivacon, a residential trading company, announced last month that four of its property holding subsidiaries filed for insolvency. Vivacon's share price has declined by 86% this year. Patrizia continues to be the only residential trading company to see YTD gains on its share price.

Commercial

The listed German commercial sector has performed slightly worse than the residential and trading companies in the month of June, with weighted average share price declines of 3%, bringing the sector weighted average P/NAV down to 46% from 48% in June. Develica Deutschland saw a 43% decline in its share price for the month of July, the worst performing commercial company this month. Develica announced this month that it had breached all its LTV covenants. Develica's EPRA NAV plunged to 13.5 euro cents per share, down from 73.7 euro cents previously.

Eurocastle saw further share price declines of 17% this month, but remains the best performing commercial stock of the year, with YTD share price increase of 92%. Deutsche Euroshop witnessed declines of 8% on its share price in July while DIC saw declines of 3%. Hamborner was the best performing commercial company in July, with a share price increase of 4% over the previous month. IVG (3%), Deutsche Land (2%) and Treveria (2%) complete the gainers for July.

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