

German Property Sector News:

Potential Sale of Berliner Immobilien Holdings Progresses

The sale of Berliner Immobilien Holdings (BIH); the state-owned property company with 595 buildings comprising 39,000 apartments and 3,000 commercial spaces, appears to have progressed further with the initial eight bidders now whittled down to two or three bidders. Included among the final bidders, according to reports from Berlin, is Guy Hand's Terra Firma which already owns Germany's largest private landlord, Deutsche Annington.

BIH is valued at approx EUR 4bn and should the sale go through as planned by the summer, it will be by far the largest property transaction in Germany this year. The sale is expected to net the city of Berlin over EUR 100m, after fulfilling guarantee obligations to existing fundholders of minimum rental income levels. BIH is the result of the rescue operations involving Bankgesellschaft Berlin, which was bailed out by the city of Berlin in 2001, leaving an assortment of diverse property interests located mostly in Germany with ongoing state liabilities to the surviving fund shareholders.

IVG Posts 1Q Loss of EUR 44.8m, Mulls State Aid

IVG Immobilien AG, the Bonn-based listed real-estate group, claimed a strong operational start to the year in its first quarter report but nonetheless made a loss of EUR 44.8m as it continued to take heavy valuation write-downs on its property portfolio. IVG took property write-downs of EUR 33.7m in 1Q 2009 after taking write-downs of EUR 352m in 4Q 2008. According to Gerhard Niesslein, IVG's chairman, "At the moment it's not possible to make any serious forecast for the full year, due to ongoing difficult market conditions."

IVG has cancelled its dividend for the fiscal year 2008. IVG has successfully extended the maturities of EUR 1.3bn of its debt out to 2012 but still has EUR 320m of debt due in 2Q 2009. A company source has stated IVG is mulling a request for state aid and hopes to obtain EUR 300m in guarantees.

Heightened Interest in German Residential

According to REFIRE, Germany is witnessing a widening gap between prices in residential properties in the larger cities and in less centralised areas. Several German media have recently raised the spectre of coming inflation and the desirability of protecting capital against inflation by investing in property.

Tobias Just, real estate analyst at Deutsche Bank, believes "many more young families will be drawn back into the cities, with their greater job prospects and wider choice of schools. Older people too are being drawn back to urban living, with its easier access to infrastructure, culture and medical treatment. Rising unemployment and short-time working for many simply mean less potential buyers and less demand for homes in the countryside." Tobias's views are echoed by Jürgen Kelber, director of Alt & Kelber and Conwert Immobilien, saying "more and more young families are drawn to the jobs in the big cities."

Jürgen-Michael Schick, vice-president of Immobilienverband Deutschland (IVD) expressed his views that "what we're experiencing now is a surplus of demand in the high-priced apartment segment, and in particular for renovated older buildings."

German Apartment Prices Soften, but Outlook Improves

According to the Hypoport Index, the Apartment Index was down to 95.81, 1.35% below the level 12 months ago. Thomas Kretschmar, Co-CEO of Hypoport AG added that "the likelihood that prices will pick up

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again over the medium and long term is extremely high."

King Sturge's Real Estate Climate index dropped 2.8% to 51.4 points from 52.9 points previously. The Office Climate dropped 5.6% to 30.2 points from 32.0 points in the previous month while the Retail Climate stood at 52.6 points, down from 55.5 points previously. The Residential Climate index meanwhile "continues to buck the trend," according to Sascha Hettrich, managing Partner of King Sturge Deutschland, registering 102.4 points, up from 101.5 points in the previous month. Hettrich observed that "in the eyes of many investors, the development of residential real estate suggests long-term stability, promising a stable cash flow and with it a regular, secure income." The Real Estate Economic Situation Index, which is based on statistical evaluations of DAX, ifo, DIMAX and prime interest rates, climbed for the first time since July 2008 registering 121.9 points, a 2.6% increase over the previous month's value of 118.8 points.

German Economic News:

Signs of Life in the Pfandbrief Market

In what seems to be further signs of life dribbling back into the market for covered bonds and, in particular, German Pfandbrief, Eurohypo twice boosted the volume of a 10-year jumbo mortgage Pfandbrief which it had issued last year. In response to market demand, according to the bank, it added a second tranche of EUR 125m to a similar addition earlier, to bring the total issue up to EUR 1.25bn. The jumbo Pfandbrief has a maturity date of 4 June 2018 and offers a coupon of 4.75%. Further good news for the Pfandbrief market came with news from the ECB that it planned to start buying up to EUR 60bn worth of covered bonds, including German Pfandbrief, as part of its support for Eurozone financial markets, marking the first time that the ECB would be directly stepping into the covered bonds market.

Soffin Confident on Hypo Real Estate Bid

Soffin, the German government's bank rescue fund, said it is "confident" that its bid for Hypo Real Estate (HRE) shares will give it a big enough stake to squeeze out US investor JC Flowers after it raised its share of the commercial property lender to 47% at the start of May. The German government seeks to push the minority shareholder's stake below 10%, which would allow it to force them out. If that fails, it can employ expropriation laws approved on 3 April 2009 allowing the state to seize HRE as a final resort. Soffin won EU approval this month to buy HRE, with the EU stating that the transaction "wouldn't significantly hinder competition in the EU". The decision moves Germany to its first bank nationalisation since the 1930s. HRE has already received EUR 102bn of credit lines and debt guarantees from the government to keep it from bankruptcy.

German Business Sentiment Improves Further

The ZEW business expectations index jumped in May to a reading of +31.1, up from +13.0 in April, beating expectations. For the first time since the summer of 2006, the ZEW business expectations have climbed back above their long-term average of +27. As the long-term average is consistent with trend growth, this seems to suggest that investors are getting ever more confident about the recovery in Germany. The May results marks the seventh consecutive improvement and takes the index 94.1 points above its November trough of -63.0. The German Ifo Business Climate index, a leading indicator of current German business activity, rose for the second straight month to 84.2 from 83.7 in April, falling short of the Reuters consensus forecast of 85.0. The Ifo Business Expectations index rose for the fifth month in a row to 85.9 from 83.9 previously, beating the consensus forecast of 85.5.

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 (€) 28/05/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/NAV
GAGFAH	GFJ.DE	6.19	47%	1,397	9,853	68%	45%
Deutsche Wohnen	DWNI.DE	11.00	22%	290	3,303	67%	30%
Speymill Deutsche Immobilien	SDIC.L	0.23	114%	76	1,482	78%	25%
Colonia Real Estate	KBU.DE	3.44	0%	83	835	67%	29%
TAG Tegernsee	TEG.DE	2.05	-5%	67	629	86%	22%
Puma Brandenburg	PUMA.L	0.49	-3%	67	681	74%	34%
Bau-Verein Hamburg	BVH.DE	2.08	-7%	48	131	146%	39%
Franconofurt	FFM.DE	3.00	0%	26	62	108%	34%
IMW Immobilien	GARY.DE	15.00	6%	247	976	63%	77%
Taliesin	TPF.LN	6.50	-7%	23	95	60%	65%
Weighted Average NAV Valuation *							44%

Trading Companies

Company	Ticker	Price (€)	Change	Market Cap (€m)	Total Assets (€m)	LTV	Price/NAV
Patrizia	P1Z.DE	2.90	59%	151	1,517	72%	52%
Estavis	E7S.DE	1.53	-19%	12	250	30%	14%
Vivacon	VIA.DE	1.55	-65%	31	952	47%	11%
Weighted Average NAV Valuation*							43%

*Weighted by Market Capital

German Commercial Property Focused Companies

Company	Ticker	Price (€) 28/05/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/NAV
IVG	IVG.DE	5.14	-20%	596	7,876	71%	22%
Eurocastle	EUI1.DE	0.80	208%	51	7,508	77%	5%
ORCO	ORC.FP	6.57	0%	72	2,466	62%	8%
Treveria	TRV.L	0.15	99%	91	2,236	74%	17%
DIC Asset	DAZ.DE	5.37	-23%	168	2,215	69%	33%
Deutsche Euroshop	DEQ.DE	21.30	-15%	732	2,007	49%	76%
Develica Deutschland	DDE.L	0.12	26%	26	1,194	68%	26%
Deutsche Land plc	DLD.L	0.15	99%	91	670	66%	22%
Hamborner	HAB.GR	7.75	35%	177	226	29%	68%
Weighted Average NAV Valuation*							46%

Speymill Market Commentary

Residential

The two listed German residential companies that performed best in May 2009 were Gagfah and Colonia, with share price increases of 38% and 16% respectively. SDIC's share price remained relatively stable with a price appreciation of 5%. The sector weighted average increase during May was 19%, largely reflecting the good performance of Gagfah, which makes up 60% of the market capitalisation. Excluding Gagfah, the sector weighted average share price decreased by 9%. The weighted average discount to NAV in the sector now stands at 56%, an improvement on last month's figure of 59%.

The German residential companies that performed worst in terms of share price this month were Deutsche Wohnen, Taliesin and IMW, with share price declines of 28%, 12% and 10% respectively. The decline of Deutsche Wohnen's share price since followed the announcement that the Company intends to raise capital to "fund growth plans". At the end of last month Taliesin and IMW had the two smallest discounts to NAV in the sector (of 18% and 13% respectively), so this result has brought the companies' valuations more in line with their peers.

Commercial

In percentage terms, the German commercial company that has vastly outperformed the sector in terms of share price movement was Eurocastle, with a share price increase of 60%. Eurocastle's share price performance is slightly misleading as it has moved from a very low value in nominal terms, the difference is fairly minor. At the end of April Eurocastle was trading at a 97% discount to NAV; this has narrowed to 95% but is still substantially higher than the commercial sector weighted average discount of 54%. The German commercial company that performed the worst in terms of share price movement this month was IVG whose share price fell 22%. The sector weighted average share price dropped by 5%.

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