Speymill Deutsche Monthly Monitor
December 2008

SDIC
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German Property Sector News:

Woes Continue to Deepen for Hypo Real Estate

The Board of Hypo Real Estate ("HRE") has decided upon strategic realignment and restructuring. HRE will adapt its business model to changes in the capital markets. The restructuring will be a prerequisite for the support measures already provided by the German Government and for further support to be extended by the German Financial Markets Stabilisation Fund ("SoFFin").

HRE will make reductions in annual costs of approx. €200m by 2011 and approx €250m by 2013. CEO Dr. Axel Wieandt explained; *"With the decisions taken today, the Group has taken necessary steps for its return as an active market participant in the medium term. Given the changes to the capital market environment – as a consequence of the financial markets crisis – and the real estate downturn, there is no alternative to the extensive planned adjustments to the business model. The focus is now on discipline in managing the balance sheet, as well as costs and risks, and on consistently implementing the restructuring measures."*

Amidst the tough restructuring programme, HRE is also currently embroiled in allegations of market manipulation when it was seeking a multi-billion euro lifeline to survive the credit crisis. The allegations surround a statement issued by HRE in September 2008 saying it had secured a €35bn lifeline from a public-private consortium in Germany. At the time, HRE had claimed that the multi-billion short– and medium–term credit facility was *"sufficient to cover the Group's funding needs well into the future."*

HSH Nordbank Discusses Realignment

HSH Nordbank's Board has outlined a comprehensive strategic realignment of the bank, which involves the reduction of its portfolios and the spin-off of non-strategic activities. *"The changes in the global banking landscape require a significant restructuring of HSH Nordbank. Our aim is to ensure that the bank once again has the sufficient flexibility needed in its regionally anchored core fields,"* said Dirk Jens Nonnenmacher, CEO of HSH Nordbank.

The decision about the realignment of HSH Nordbank will be made in February 2009, following discussions with the Government. HSH Nordbank cannot extricate itself from the financial crisis. Only recently a reclassification of a portfolio of structured products on the balance sheet resulted in a market value write-down of €450m. Since the end of November 2008, HSH Nordbank has been able to draw on a Government liquidity guarantee of up to €30bn.

Colonia to Cull Staff

German listed Colonia Real Estate has said it is to lay off 20% of its staff, restructure its operations and reduce external consulting expenses to save approx. €9.5m annually. The measures are focused on four areas: consolidation of non-operating subsidiaries; cut back by diversification; separation or restructuring of business areas as well as external consulting expenses and staff reduction. The 20% staff reduction includes the employees who left during the management buy-out of a subsidiary in the beginning of December 2008. The rest of the employees will leave the company by March 2009.

German Economic News:

Growth in Purchasing Power Will Stagnate in 2009

According to the results of the latest GfK purchasing power survey, the rise in prosperity in 2009 will more or less keep pace with inflation. As a result, growth in real purchasing power will stagnate. Germans expect net disposable incomes to total around €1,558bn in 2009, this estimate includes national benefits such as unemployment benefit, child benefit and pensions. In per capita terms, this equates to a purchasing power or net disposable income of €18,946 during the year. This is equivalent to an extra €210 to spend in 2009 compared to the previous year, an increase of 1.1%.

Commercial Real Estate Downturn Yet to Hit Rock Bottom

The deterioration in the mood on the German real estate market continues, despite the recent November 2008 results of the King Sturge Real Estate Economy Index suggesting that the downward trend has slowed. The index currently stands at a low of 48.2 points. However, what is surprising is the pace of the downturn; in just five months, the mood among the 1000 industry players regularly interviewed by the independent market research company BulweinGesa AG dropped by 50 index points.

As in the month before, a steady cash flow and favourable refinancing options caused the residential real estate to remain the most stable segment even in November. Rising vacancy rates caused by the present economic development and the regressive consumer spending are reflected in a reticent ratings of the commercial, office, and retail sectors.

"*At the same time, there are indeed some bright prospects,"* argued Hettrich, Managing Partner of King Sturge Deutschland. *"For instance, the economic aid program launched in early November has earmarked funds for additional investments in infrastructure and building redevelopments. It is definitely a positive signal for the construction and real estate industry,"* Hettrich added.

Germany Has Scope for More Stimulus

Germany's Economy Minister Michael Glos recently stated that the German Government still has scope to increase its economic stimulus package and bring it into line with European Union targets. Glos told television station ZDF the EU's plan would provide the European economy with a boost worth some 1.5% of total GDP. *"We've still got some room until we get there,"* Glos said.

Germany has come under pressure from key trading partners like France to bolster its stimulus package, with critics arguing it must do more to support the global economy. *"We must look at measures that will be effective quickly and also measures which will be in the long-term interest of our country,"* Government spokesman Ulrich Wilhelm told a news conference on Monday. Wilhelm added that Chancellor Angela Merkel would meet representatives of the 30 firms in Germany's blue chip DAX stock market index in January to discuss ways of safeguarding jobs.

Speymill Deutsche Immobilien Company plc (AIM: SDIC, SDCC) 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).

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German Residential Property Focused Companies

Company	Ticker	Price (€) 29/12/08	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV (%)	Price/ NAV
Bau-Verein Hamburg	BVH.DE	2.71	-47%	63	366	58%	38%
Puma Brandenburg	PUMA.L	0.45	-45%	62	782	65%	41%
Franconofurt	FFM.DE	3.09	-64%	27	161	46%	27%
TAG Tegernsee	TEG.DE	1.99	-70%	65	911	59%	18%
GAGFAH	GFJ.DE	4.08	-67%	921	10,586	64%	105%
Deutsche Wohnen	DWNI.DE	9.15	-59%	242	3,478	62%	27%
Colonia Real Estate	KBU.DE	2.84	-83%	65	988	57%	36%
Speymill Deutsche Immobilien	SDIC.L	0.10	-89%	33	1,476	76%	7%
*Weighted Average NAV Valuation **							*76%*
Trading Companies							
Estavis	E7S.DE	1.61	-90%	13	1,189	59%	13%
Patrizia	P1Z.DE	1.83	-68%	95	1,560	76%	53%
Vivacon	VIA.DE	4.07	-69%	81	258	44%	45%
*Weighted Average NAV Valuation**							*47%*

*Weighted by Market Capital

German Commercial Property Focused Companies

Company	Ticker	Price (€) 29/12/08	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV (%)	Price/ NAV
IMW Immobilien	GARY.DE	21.95	-22%	334	896	63%	103%
Deutsche Euroshop	DEQ.DE	23.44	0%	806	1,965	46%	88%
Hamborner	HAB.GR	5.66	-37%	129	222	16%	17%
DIC Asset	DAZ.DE	6.07	-72%	190	2,211	71%	32%
IVG	IVG.DE	5.90	-76%	684	9,004	68%	27%
Develica Deutschland	DDE.L	0.08	-89%	18	1,194	71%	8%
Deutsche Land plc	DLD.L	0.07	-85%	15	675	70%	10%
ORCO	ORC.FP	6.44	-92%	71	3,051	50%	6%
Dawnay Day Treveria	DTR.DE	0.07	-91%	43	2,466	75%	6%
Eurocastle	EUI1.DE	0.60	-97%	38	6,697	82%	2%
*Weighted Average NAV Valuation**							*57%*

Speymill Market Commentary

Residential

This past month saw some reprieve for German real estate companies, particularly for some of the larger players. GAGFAH saw its share price rise 69% while Deutsche Wohnen experienced a 93% rise in its share price. With the general reduction in reported NAV in the previous month, this has had the effect of pushing the weighted average NAV valuation up to 76%, skewed by GAGFAH's current premium to NAV caused by a combination of a recovering share price and falling NAV.

At a 93% discount to NAV, SDIC currently has the highest discount to NAV in the German residential real estate sector. At these prices, any risk of default has more than already been priced into the shares, a reflection of the Company's higher LTV, and hence *perceived* risk, despite the fact that the Company has no refinancing due until 2013 and is currently not at risk of breaching its banking covenants.

Commercial

Like the residential market, December brought some relief to German commercial real estate companies, though to a lesser degree compared to their residential peers. Key winners include Deutsche Euroshop, DIC Assets and IVG rising by 18%, 43% and 48% respectively.

Eurocastle saw its share price rise by 20% in the last month but remains at a 98% discount to NAV, despite already factoring in the massive slashing of 36% to its NAV last month. Eurocastle shares have fallen by 97% this year.

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