

German Property Sector News

Gap widens for German residential property— The gap in residential property prices between prime and second-rate locations is widening, according to a report in the current issue of the German monthly business magazine Capital. Germans are willing to spend more money on expensive property in top locations, as the supply of attractive residential properties in top areas is decreasing in Germany's major cities, the study concludes. The study found that properties which are currently very expensive were likely to get more expensive, whilst cheaper, lower quality properties were likely to get cheaper.

German investors value domestic market—According to a poll taken by Immobilienverband Deutschland IVD, German property investors want to intensify activity in their domestic market. This was found among the initiators of closed, open and special funds and insurance companies, having together a total of €53.5bn in assets under management. Of those questioned, 42% wanted to increase their investment volume in the German property market considerably; 29% wanted to invest only a little more; and 25% wished to leave their investment volume unchanged. A mere 4% wanted to reduce their investments. For nearly all of the investors polled, Germany was the most attractive property market by far: 58.3% of them found Germany "very attractive," and 37.5% "attractive". At 29%, the largest portion of investors questioned were of the opinion that the increased activity of German investors in the domestic property market is due to the fact that properties in Germany are still comparatively inexpensive. Also, 46% of those polled responded that core investments dominate their investment activities in Germany.

INREV: German investors increase capital into funds—German institutional investors are increasingly switching billions of euros invested directly in real estate into property funds, the association representing investors in non-listed real estate funds Inrev said on Tuesday 27 May. "It is clear that a major trend is underway with German insurers and pension funds increasingly choosing to invest indirectly in real estate through non-listed funds rather than directly in buildings, both abroad and also in their home market," said Georg Allendorf, managing director at RREEF Alternatives in Germany and vice-chairman of Inrev's management board.

IPD: Germany to fare well during real estate price correction - When Rupert Nabarro, one of the founding directors of the Investment Property Data Bank (IPD), polled the audience of 250 real estate professionals at the IPD European Property Investment Conference in Berlin about their outlook for near term profits in the UK real estate market, the response was a bit sombre. No one expected profits to return in 2008, while a third felt this would happen in 2009 and the majority believed this would not happen until 2010. There was a broad consensus among the professional delegates at the conference that the real estate market in continental Europe is in for a price correction. A fall in commercial and residential prices of 15-20% was predicted, with Spain, France, and Italy topping the list of nations likely to follow in the UK's footsteps. Germany, with its overall low borrowing rate and only recently recovering from its last slump, is seen as one of the more secure markets, with the Nordic nations also likely to fair reasonably well during the looming predicted price corrections.

Inflows to German open-ended real estate funds - More favourable prices and lack of competition from other buyers has put the funds in a strong bargaining position, according to CB Richard Ellis Research. German open-ended real estate funds saw €508m cash inflows in March, reports CBRE. The retail investor sentiment towards the GOEF sector continues to be strong, with some €3.1bn net cash inflows over the first three months of 2008.

German Property Sector News Continued...

IPD and Alstria present new German rent index (DMX) - German office REIT Alstria and the IPD have launched the new rent index DMX for Germany. This index looks at the rent situation in the German market by comparing contractual rent to market rents and therefore gives insight into whether markets are currently over or under-rented. The DMX is based on more than 10,000 rental contracts and covers 26 German cities. Sub indices for Berlin, Cologne, Frankfurt, Dusseldorf, Hamburg, Munich, Stuttgart and for 20 secondary cities (the latter on an aggregate basis) will be published biannually going forward.

DIC Asset AG— The commercial-property investor that counts Siemens AG among its tenants said first-quarter net income fell 33% to €3.3m because of higher financing costs. The share price increased by 62 cents, or 2.9%, to €22.40.

Corestate closes German residential fund- Corestate Capital AG has completed the capital raising for its real estate private equity fund, Corestate German Residential Limited, as planned. The fund attracted €486m (USD 766 m) from institutional investors. The fund invests directly and indirectly in German residential real estate. The total target investment volume is around €2.0bn (USD 3.2 bn), of which approximately 50% has been acquired. The planned term of the fund ends in 2014. The fund's investors are primarily large, globally active institutional investors, such as ING of the Netherlands, Morley of the UK and Goodman of Australia.

Land Securities forms partnership with Lindner Group - Land Securities Trillium, part of Land Securities Group PLC, London and the Düsseldorf based funds management company Lindner Group, have formed a partnership to move into Germany's Public Private Partnership (PPP) market. Under the terms of the partnership Lindner Group will act as Land Securities Trillium's local partner. It will help the business identify potential Public Private Partnership (PPP) / Private Finance Initiative (PFI) investment opportunities. The German PPP market currently has approximately £15bn of PPP projects in procurement with a Government stated intention that 15% of all future public spending for infrastructure will be via PPPs, equivalent to €5bn per annum.

Recent Economic News

German Industrial Production & Trade Balance—According to Capital Economics, industrial production fell by 0.5% m/m in March, pushing the annual rate down to a relatively healthy 4.7%. The monthly fall was driven largely by a 12.3% drop in construction output after weather effects caused a similarly strong gain in January. Survey evidence suggests that industrial growth will continue to slow moderately in the coming months. In Q1 the industrial production sector rose by 2.3% q/q. As this sector accounts for about 30% of total German output, the improvements should boost quarterly GDP by between 0.4—0.5 percentage points according to Capital Economics. Germany's trade surplus fell from €16.4bn to €15.4bn in March—the lowest in a year.

German growth helps spur eurozone—Defying the global economic storms, German gross domestic product in Europe's largest economy increased by 1.5% in the first quarter – the fastest quarterly rate for almost 12 years, the country's statistical office revealed on Thursday. That was far above expectations and compared with GDP growth of just 0.1% in the US in the same period. The German figures helped lift the overall 15-country eurozone growth rate to 0.7% in the first quarter, up from 0.4% in the previous three months. That could lead to forecasts for the year being revised significantly higher.

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 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 is a subsidiary of Speymill Group Plc (AIM: SYG) while the Investment Adviser is a joint venture partner.

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

Floris Van Dijkum
Global Chief Investment Officer
Tel: +44 20 7659 0765
Fax: +44 203 0084984
f.vandijkum@speymill.com

Amy Coleman
Team Assistant
Tel: +44 20 7659 0763
Fax: +44 20 7659 6296
a.coleman@speymill.com



Speymill
Property Group Limited
www.spg.co.im

German Residential Property Focused Companies

Company	Ticker	Price 27/05/08	% change YTD	% Change since 17/03/07	Market Cap (€m)	Price/NAV
Puma Brandenburg	PUMA.L	0.77	-3%	-23%	135	70%
Bau-Verein Hamburg	BVH.DE	4.53	-4%	-12%	163	63%
TAG Tegernsee	TEG.DE	5.94	-10%	-37%	193	52%
Gagfah	GFJ.DE	11.14	-10%	-41%	2,512	79%
Franconofurt	FFM.DE	7.28	-16%	-34%	64	63%
Speymill Deutsche Immobilien	SDIC.L	0.73	-18%	-49%	125	54%
SDCC	SDCC.L	0.65	-21%	-35%	162	65%
Deutsche Wohnen	DWNI.DE	16.06	-35%	-64%	414	35%
Colonia Real Estate	KBU.DE	10.85	-36%	-73%	243	75%
Average Price/NAV						62%
Trading Companies						
Patrizia	P1Z.DE	4.02	-29%	-78%	210	105%
Vivacon	VIA.DE	8.54	-35%	-75%	169	95%
Estavis	E7S:DE	6.23	-60%	-74%	50	52%
Average Price/NAV						84%

German Commercial Property Focused Companies

Commercial/Retail	Ticker	Price 27/05/08	% change ytd	% change since 17/03/07	Market Cap (€m)	Price/NAV
Deutsche Euroshop	DEQ.DE	25.88	10%	-54%	890	110%
DIC Asset	DAZ.DE	20.46	-5%	-17%	641	96%
IMW Immobilien	GARY.DE	25.20	-10%	73%	383	118%
Hamborner	HAB.GR	8.5	-5%	-25%	194	25%
Deutsche Land plc	DLD.L	0.39	-19%	-44%	77	55%
Dawnay Day Treveria	DTR.L	0.57	-30%	-55%	349	49%
Develica Deutschland	DDE.L	0.45	-39%	-55%	113	45%
IVG	IVG.DE	15.47	-33%	-36%	1,795	53%
ORCO	ORC.FP	52.53	-36%	-39%	571	53%
Eurocastle	EU11.DE	10.00	-56%	-70%	639	36%
Average Price/NAV						64%

Speymill Market Commentary

Residential—Throughout the month of May the tracked (non-trading) residential company that took by far the biggest hit was Colonia Real Estate, the only company whose share price had more or less escaped the wrath of the credit crunch. At the end of last month Colonia's discount to NAV was only 7% compared to the weighted market average 27%. Since then, its share price has fallen from €13.5 to €10.9, causing the discount to NAV to almost treble, however its current discount of 25% is still below the market average of 30%. The remaining share prices have stayed relatively stable; with their weighted discount to NAV (excl. Colonia) growing only marginally from 29.1% to 29.9%. Bau-Verien Hamburg saw the best share price performance with an increase of 4.1%. SDIC and SDCC saw prices drop 2.3% and 3.3% respectively.

Commercial—Of the commercial companies, Eurocastle performed notably better than any of its direct peers this month; its share price saw a 43% increase whereas the market on average saw a 4% decrease. At the end of April Eurocastle had the highest discount to NAV (75%), this month its discount to NAV is 64% which still leaves it ranked with the second highest discount. Hamborner has the highest discount to NAV at 75%. The two market giants in this sector are Deutsche Euroshop and IMW Immobilien who together makeup over 80% of the (tracked) sector market capital. These companies both saw share prices drop during May, but are still at a premium to NAV (10% and 18% respectively).

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Floris Van Dijkum
Global Chief Investment Officer
Tel: +44 20 7659 0765
Fax: +44 203 0084984
f.vandijkum@speymill.com

Amy Coleman
Team Assistant
Tel: +44 20 7659 0763
Fax: +44 20 7659 6296
a.coleman@speymill.com