

German Property Sector News:

GAGFAH Betting on Increased Sales Demand

Germany's largest listed residential property owner GAGFAH saw its improved operating results in the first half of 2009 cancelled out by valuation writedowns on its 170,000 housing units, as it ramps up its drive to dispose of more of its assets. The company re-iterated its goal of selling a total of EUR 500m of apartments in block deals by year-end.

William Brennan, the new CEO of GAGFAH, has stated the company would continue to drive down costs in the second half of the year. According to REFIRE, Fortress, who own approx. 60% of the company, are applying maximum pressure on GAGFAH to maintain a generous dividend policy. GAGFAH's trumpeting of its lowered costs is likely to be coming at the expense of property maintenance, and rumours and anecdotal evidence of this are not in short supply. With declining housing quality, the company's projections for a big increase in housing sales may prove optimistic, according to REFIRE.

Vivacon AG Scrambles to Sell Off Portfolios

Vivacon AG, the Cologne-based listed property group which is in a race for time to avoid bankruptcy, continued its disposal programme by selling a further portfolio of 2,400 residential and commercial units last week. The portfolio, with a total area of 146,000 sq. m. and located mainly in western Germany, was sold for an undisclosed price. According to Vivacon, the disposal would lead to a reduction in bank liabilities of about EUR 83m. The company has also sold a portfolio of its ground lease properties, and filed for a further insolvency of a small residential holding unit in the city of Hamelin. The company has yet to report its 2008 results.

Vivacon is expected to complete the transfer this month of three further project developments to Swiss luxury housing company Peach Property Group, following two other projects being taken over by Peach Property earlier this summer. The sale of the five projects is expected to generate EUR 345m in gross proceeds for Vivacon and is awaiting approval from Vivacon's lenders. Should the remaining three deals go ahead, it is likely that Peach Property would take over the exclusive Philippe Starck distribution license in Germany, which would fit with its existing luxury living concepts in Switzerland, Austria and in the Balearics.

German Office Values Maintain Downward Trend

According to Jones Lang LaSalle's latest VICTOR index, prime office valuations in Germany's five largest cities fell by a further 2.5% in 2Q09, compounding a fall of 1.2% in 1Q09. The VICTOR index measures office values in Germany's five largest commercial centres—Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. Hardest hit were the banking districts of Düsseldorf (-2.8%) and Frankfurt (-3.7%). Office values in Germany have now fallen an average 20% from the peak at June 2007, with Frankfurt the worst hit among the 'big five', registering a 26.6% fall in values from the peak.

"The increased falls seen in the quarter have more to do with the malaise in the rental sector than any new downswing in the investment market...All indicators are pointing towards downward trending rentals in the future [and] this is only partially priced into today's yields and rentals", according to JLL.

The first quarter saw total real estate transaction volume of EUR 1.8bn, with the second quarter showing EUR 1.9bn. Retail and office investments accounted for 31% of the deals.

German Property Sector News (cont'd):

German Real Estate Sentiment Increases Further

The King Sturge Real Estate Economy Index rose by 7.5% in July to 63.3 points, the eighth monthly rise in a row. The Real Estate Investment Climate index rose 14.9% to 70.2 points while the Real Estate Economic Situation Index, which is based on hard economic data such as the DAX and Ifo indices, fell marginally to 128.8 points from 130.6 points. The Office Climate index rose by 12.6% to 43.2 points while Residential Index remains the strongest indicator at 116.2 points, up 4.5% from the previous month.

While the Investment Climate index shows further improvement in sentiment, the downward movement in the Economic Situation index suggests that the real estate market has yet to witness a sustainable shift in trend.

German Economic News:

Germany 'Out of Recession'

Germany and France both posted 0.3% GDP growth for 2Q09, bringing to an end year-long recessions in two of Europe's largest economies. The data came as a surprise to many, with few analysts expecting Germany and France to start to recover so soon.

Government spending lifted Germany out of its worst recession since World War II. Government spending rose 0.4% from the first quarter and helped to boost private consumption, which increased by 0.7%, according to the Federal Statistics Office. Chancellor Angela Merkel has approved spending of EUR 85bn to rekindle growth, including a EUR 2,500 payment to people who scrap their old cars and buy new ones as well as subsidies for companies to hold on to workers when orders are slack.

According to the Bundesbank, German unemployment will rise to 10.5% in 2010 from 8.3% currently. According to ING, *"the labor market is the one big unknown in terms of what will happen to German growth in the next few quarters. The good news is that the German recession is over and will remain over."*

Postbank Beefs up Pfandbrief by EUR 500m

Germany's Postbank added a further EUR 500m to the EUR 1bn Pfandbrief it issued at the beginning of July, which was oversubscribed. The five year Pfandbrief with a coupon of 3.125% was issued at a premium of only 12 bps above the benchmark swap rate; a sign that the risk premium on Pfandbrief refinancing is headed in the direction of pre-Lehman levels.

German Business Sentiment Brightens Again

The Ifo Business Climate Index rose for the fifth month in a row in August to 90.5 points from 87.4 in July. The Business Situation Index rose to 86.1 from 84.4 points, while the Business Expectations Index rose to 95.0 points from 90.4, the eighth successive monthly improvement.

The ZEW business expectations survey rose markedly to 56.1 points in August, up from 39.5 in July, significantly above the long-term average of 27.0 and consensus estimates. Current business conditions posted the first meaningful rise, going from -89.3 to -77.2 in August. Current conditions remain way below their long term average of -30.0. The marked difference between business expectation and current business conditions underscores the view that investors are becoming too bullish on the recovery compared to what companies really see happening on the shop floor, according to Morgan Stanley research.

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 (€) 28/08/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/ NAV
GAGFAH	GFJ.DE	6.39	52%	1,443	9,853	68%	47%
Deutsche Wohnen	DWNI.DE	12.42	38%	328	3,303	67%	34%
Speymill Deutsche Immobilien	SDIC.L	0.32	200%	106	1,482	78%	35%
Colonia Real Estate	KBU.DE	3.21	-7%	91	835	67%	27%
TAG Tegernsee	TEG.DE	3.38	57%	110	629	86%	36%
Puma Brandenburg	PUMA.L	0.67	33%	92	681	74%	47%
Bau-Verein zu Hamburg	BVH.DE	2.70	21%	63	131	146%	50%
Franconofurt	FFM.DE	3.06	2%	27	62	108%	35%
IMW Immobilien	GARY.DE	14.00	-1%	231	976	63%	72%
Taliesin	TPF.LN	7.50	8%	27	95	60%	74%
Weighted Average NAV Valuation *							46%

Trading Companies

Patrizia	P1Z.DE	3.04	67%	159	1,517	72%	54%
Estavis	E7S.DE	1.68	-12%	14	250	30%	15%
Vivacon	VIA.DE	0.80	-82%	16	952	47%	6%
Weighted Average Price/NAV*							47%

*Weighted by Market Capital

German Commercial Property Focused Companies

Company	Ticker	Price (€) 28/08/09	Change YTD	Market Cap (€m)	Total Assets (€m)	LTV	Price/ NAV
IVG	IVG.DE	5.44	-15%	631	7,876	71%	23%
Eurocastle	EUI1.DE	0.80	208%	51	7,508	77%	5%
ORCO	ORC.FP	10.24	56%	112	2,466	62%	12%
Treveria	TRV.L	0.15	93%	88	2,236	74%	16%
DIC Asset	DAZ.DE	6.70	-4%	210	2,215	69%	41%
Deutsche Euroshop	DEQ.DE	22.26	-11%	842	2,007	49%	80%
Develica Deutschland	DDE.L	0.06	-36%	13	1,194	68%	13%
Deutsche Land plc	DLD.L	0.15	93%	88	670	66%	21%
Hamborner	HAB.GR	7.80	36%	178	226	29%	69%
Weighted Average Price/NAV*							49%

Speymill Market Commentary

Residential

SDIC was the best performing residential stock in August with a share price increase of 43% over the previous month, closing at EUR 0.32 per share. Overall, SDIC remains the best performing residential stock this year, with a YTD share price increase of 200%. August was generally a good month for residential real estate in Germany, with the sector average discount to NAV narrowing from 59% to 54%. The average discount to NAV for residential trading companies remained unchanged for the month. Puma Brandenburg and Franconofurt were the worst performing stocks in the month of August, with share price declines of 3% and 2%, respectively. Puma is expected to close its transaction to be taken private by Shore Capital following a vote by a majority of Puma's shareholders in favour of Shore Capital's 60 pence per share cash offer.

Vivacon, a residential trading company who is fighting against time to prevent bankruptcy, has seen its share price increase by 31% in the last month. Overall, the company's share price has plunged 82% YTD.

Commercial

The listed German commercial sector, like the residential sector, saw a small rally in the month of August, with the sector average discount to NAV narrowing slightly to 51% from 54% in July. ORCO was the best performing stock in August, with a share price increase of 64% for the month. Eurocastle was the second best performing stock, with its share price increasing by 60% for the month. Develica Deutschland and Hamborner were the worst performing stocks for the month with share price declines of 4% and 1%, respectively.

Eurocastle is the best performing commercial real estate stock so far this year. The company's share price has increased by 208% YTD, but remains at a 95% discount to NAV, according to Bloomberg data.

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