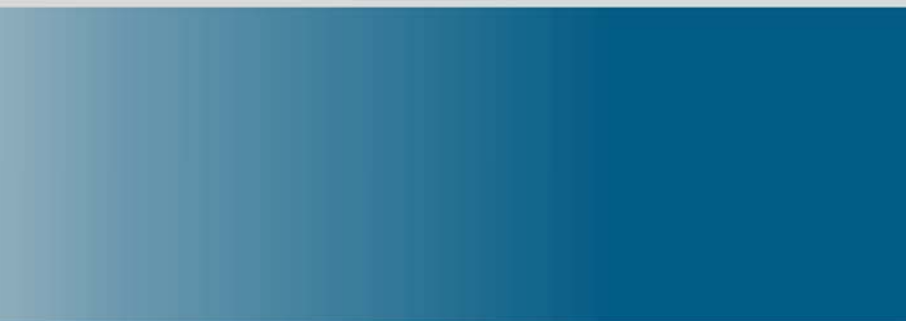
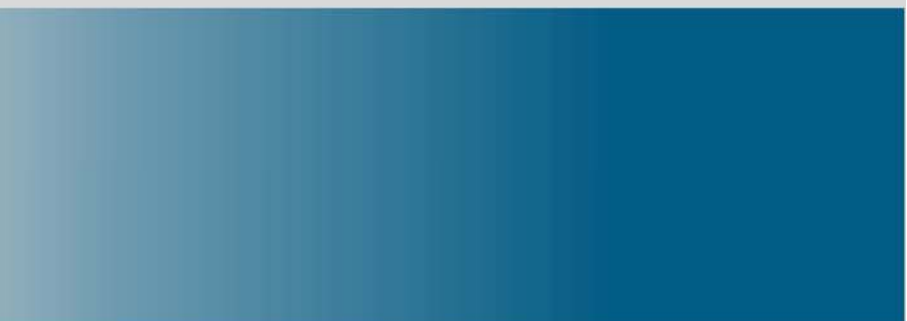
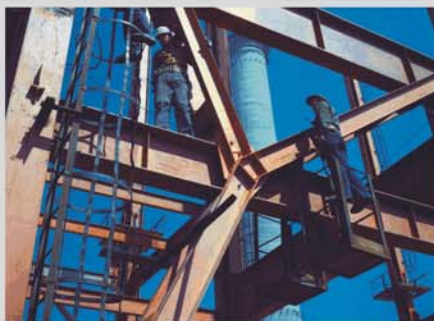




POLAND'S CONSTRUCTION

INDUSTRY



Polish Information and Foreign Investment Agency
www.paiz.gov.pl

1. Construction market in Poland

The construction market is among the most rapidly developing sectors of the Polish economy, with 15.4-percent growth in 2007, reaching almost PLN 127 billion. In 2008, the growth rate should be about 14 percent, with construction and assembly output at companies employing more than nine people growing by about 16 percent.

2. Causes of growth in the Polish construction market

Analysts say that the Polish construction market is in a growth phase now. This is caused especially by:

- progress in engineering construction,
- demand for new residential buildings,
- lack of office space in Warsaw, Łódź, Wrocław, Poznań, Gdańsk and the Silesia region.

The expected boom on the Polish construction market is related to the inflow of European Union funds. Taking into account the necessity for civil engineering construction, there is a great chance for growth in the public procurement sector.

3. Geographical profile of construction/assembly market

The profile of the construction/assembly production market in Poland, by province, as of the end of 2007 almost 1/3 of the demand for construction/assembly works is created by Mazovia Province. In Mazovia, demand is especially noticeable in Warsaw and vicinity.

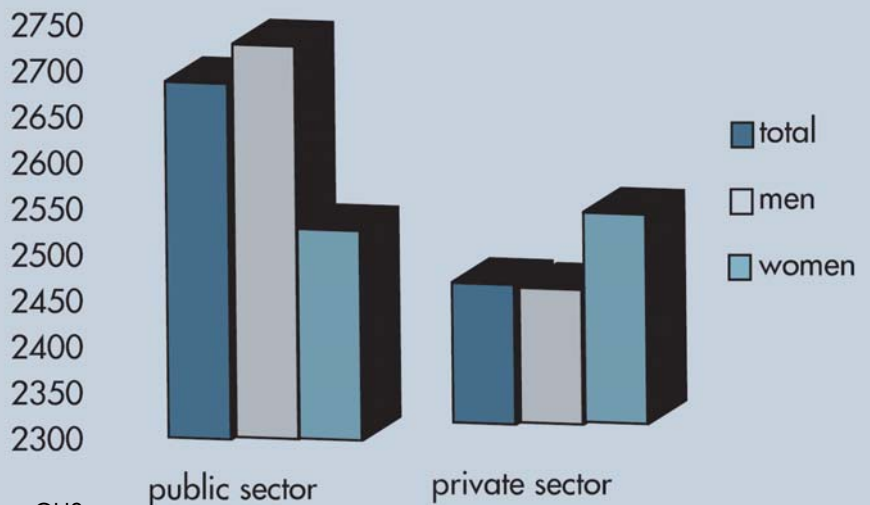
A large percentage of construction/assembly production demand is also concentrated in the province of Silesia (including Katowice), Wielkopolska Province (Poznań), Lower Silesia (Wrocław) and Małopolska (Cracow).

4. Average employment and wages on the construction market in Poland

The average monthly wage on the Polish construction market in 2007 was PLN 2,652.2. In the public and private sector, average salaries were quite similar, at PLN 2,762 and PLN 2,650.2. The average monthly wage on the Polish construction market in the 3th quarter of 2008 was PLN 3,212.83. In the public and private sector, average salaries were quite similar, at PLN 3,003.17 and PLN 3,221.76.

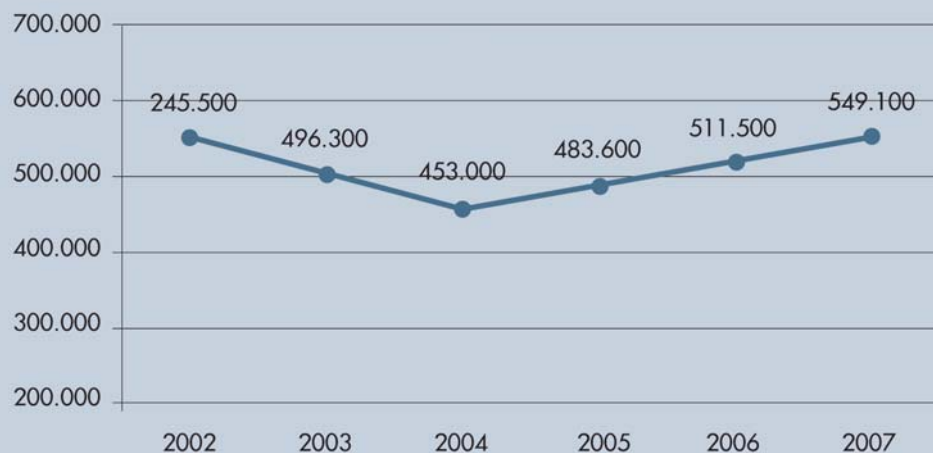
A decline in employment is noticeable in the Polish construction sector in the last few years. This downward tendency is also expected for the coming years. It is caused by high employment

Average wages on the construction market in Poland in 2006



Source: GUS

Average employment on the construction market in Poland



Source: GUS

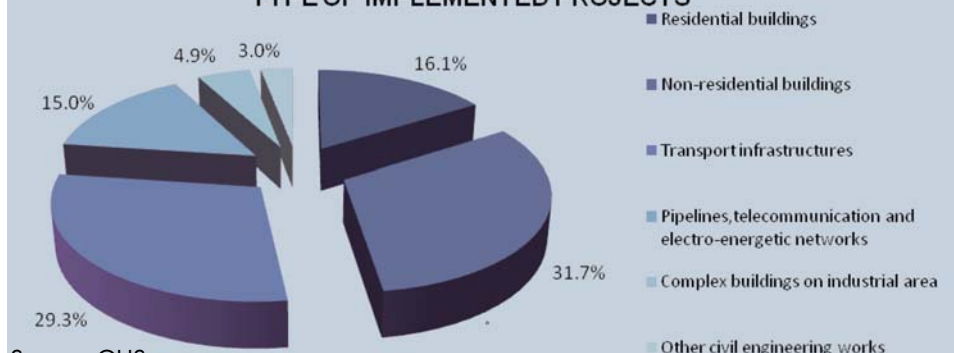
costs, especially in winter, when demand for construction services is low.

The other reasons for the decline of

mechanization and efficiency.

5. Profile of Polish construction market

PROFILE OF THE POLISH CONSTRUCTION MARKET IN 2007 BY TYPE OF IMPLEMENTED PROJECTS



Source: GUS

employment, related to high employment costs, include:

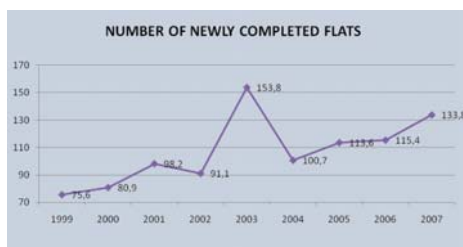
- self-employment of a growing number of the sector's workers,
- better organization of work, increased

6. Legal regulations

- Construction Law
- Zoning Law
- Construction Materials Law
- Procurement Law

7. Profile of Polish construction market by type of construction

8. Number of newly completed flats



Source: GUS

The number of new flats built has been growing since 1999, reaching a peak in 2003. At the end of 2006 a slight decline on the flat market was observed. This trend is expected to change in the coming years.

The prognosis for the construction sector is that growth in the number of newly completed flats will be generated by private developers, especially in the most attractive locations like Warsaw, Cracow, Gdańsk, Wrocław, Poznań, Łódź and Katowice. Growth in the housing market will also be affected by:

- growth of residential credit,
- 7% VAT in the market for newly built flats after 2007,
- refund of VAT for construction materials bought by individual investors,
- growth in consumer income,
- low interest rates,
- influx of European Union funds.

Value of construction and assembly production by type of construction (PLN per sq m)	2006	2007
Type of construction		
Residential buildings	4,539.5	6,816.5
One-dwelling buildings	464.9	627.8
Two and more dwelling buildings	3,671.3	5,715.6
Residences for communities	403.3	473.1
Non-residential buildings	10,372.4	13,613.8
Hotels and similar buildings	338.9	358.9
Office buildings	1,120.6	1,444.0
Wholesale and retail trade buildings	2,126.9	2,961.3
Traffic and communication buildings	254.7	254.8
Industrial buildings and warehouses	3,983.3	5,850.4
Public entertainment, education, hospital or institutional care buildings	2,019.0	2,123.0
Other non residential buildings	528.9	621.5

Source: GUS

Value of construction and assembly production by type of construction (PLN per sq m), 2005-2007

	2005	2006	2007
Residential buildings	6,651.9	7,419.3	10,227.8
Non-residential buildings	13,868.8	16,730.9	20,138.0
Civil engineering works	22,268.5	27,175.3	33,160.9
Total	42,789.2	51,325.5	63,526.7

*construction companies employing more than nine people

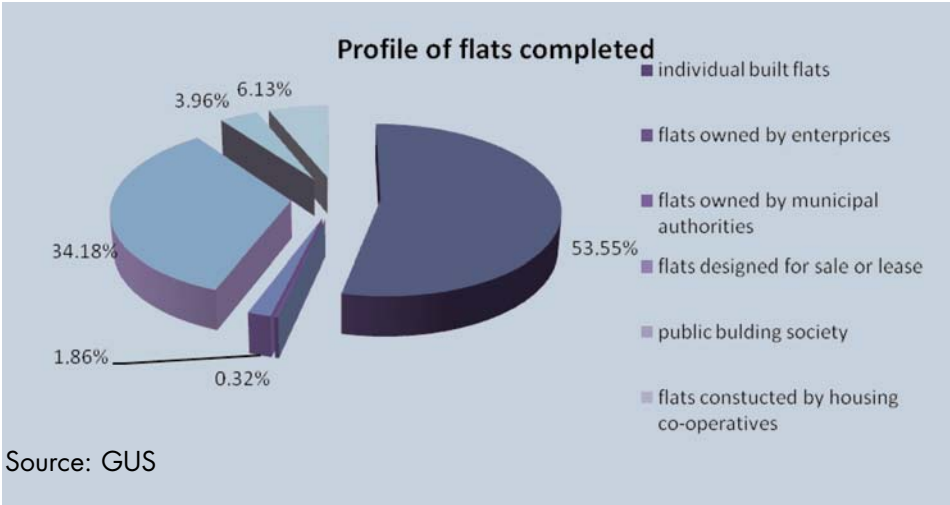
Source: GUS

Key indicators of housing construction in Poland, 2005 – 2007

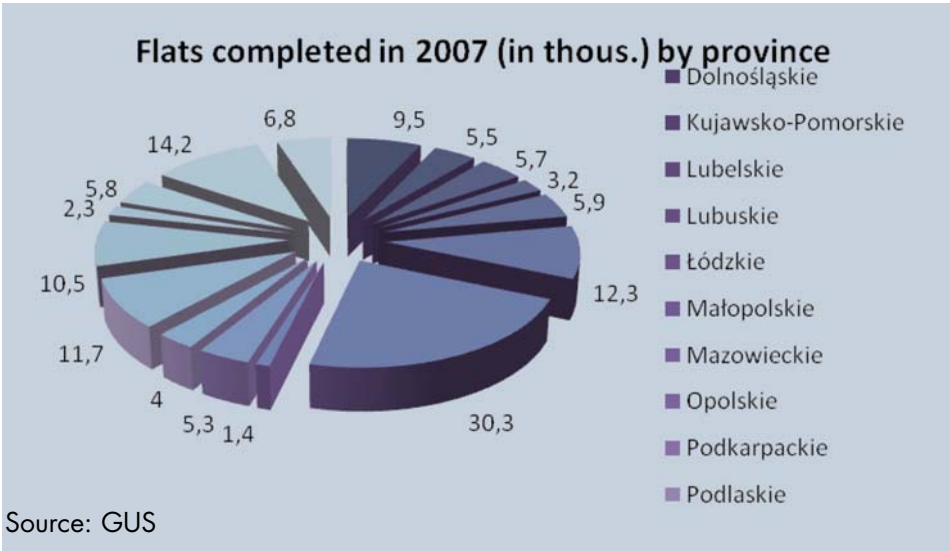
	2005	2006	2007
Homes completed ('000)	114.1	115.4	133.8
Including:			
Individual construction	63.3	57.6	71.3
Homes for sale or rent	33.0	38.0	46.9
Housing co-operatives	8.2	9.0	7.9
Number of homes for which construction permits were issued ('000)	123.9	168.4	247.7
Including:			
Individual construction	63.7	77.0	110.5
Housing co-operatives	44.1	74.5	117.5
Homes for sale or rent	6.7	7.9	10.6
Homes under construction ('000)	603.9	626.5	677.8

Source: PMR Company

9. Profile of flats completed in 2007



10. Geographical profile of flats constructed in 2007



11. Average sale prices

After the continued increase of units prices in previous years the first signs of price stability in the Polish residential market were noted in 2007. In Crakow even a minor fall in the average unit price was recorded when compared to 2006. The average unit price is very much dependent on the range of available products, sale process and quality of projects. In general, falling prices were noted in some residential schemes, which were overpriced taking account of the offered standard and location. Increasing interest rates and more difficult access to mortgages have influenced the extended decision making process of potential buyers and as a result a slow down of unit sales has been noted. In 2007 the major Polish residential markets (except Cracow) witnessed an increase in prices in comparison to the last quarter of 2006, albeit to a lesser degree than a year ago. Over the course of the last 12 months the most significant unit price increase of approximately 54% was noted in Poznań,

Average net prices in major cities in 2007					
	Warsaw	Poznań	Wrocław	Gdańsk	Kraków
Average net prices (PLN/sq m)	8,200	7,250	6,600	6,600	7,200
Price increase/decrease comparing to 2006	10%	54%	10%	14%	-1%

Source: Knight Frank

while in remaining cities prices grew at a pace of up to 14%.

12. Condition of commercial construction market in Poland

According to Knight Frank reports from 2007, over 2.38 million sq m of office space is located in Warsaw. 300,000 sq m is under construction in Warsaw, 65,500 sq m in Cracow, and 27,000 sq m in Poznań. The highest number of developed offices has been recorded in Wrocław – some 90,000 sq m. Key developers have announced new projects in less developed secondary cities, for example Globe Trade Centre in Katowice and Łódź, and Skanska in Katowice.

The market situation in the warehouse segment is also impressive. The upgrading of the quality of road infrastructure, absorptive consumer market and central location in Europe have been the key drivers of the warehouse market in Poland. Over the course of 2006 the total modern warehouse stock in Poland increased by some 26% and has been recently estimated at approximately 2.36 million sq m. Additionally, in the Warsaw area and the regional cities there are 478,000 sq m under construction, and another 4 million sq m at the planning stage to be delivered on market requirement. Warsaw has the largest concentration of warehouse space in Poland with the

total stock estimated at approximately 1.37 million sq m. Noteworthy is the increasing importance of the regional markets, with a higher market growth rate than in the capital. Strong activities in the logistics sector have been recorded in the regional markets of Upper and Lower Silesia, Central Poland (Łódź, Stryków, Piotrków Trybunalski), Poznań and Tricity area.

13. Export of construction services

The investment rate (investment to GDP ratio) increased from 18.1% in 2004 to over 22% in 2007. Growing domestic and foreign (export) demand makes entrepreneurs increase investments. In turn, growing income of the population, a low rate of inflation and small interest rates, as well as an increased access to bank loans resulting from the above-mentioned factors have led to a real boom in the housing construction industry, compared to 1989. It was accompanied by a high increase in flat prices, especially in the largest urban agglomerations.

14. Poland's largest construction companies and groups

Poland's largest construction companies and groups

Company	Headquarters	Revenues (PLN thousand)	Employment
Grupa Skanska S.A.	Warsaw	3 227 100	6 413
Polimex-Mostostal SA GK	Warsaw	3 701 738	10 400
Budimex Dromex S.A.	Warsaw	2 443 478	3 202
Warbud SA GK	Warsaw	1 629 561	1 180
Hochtief Polska sp. z o.o.	Warsaw	1 149 067	783
Budimex S.A. GK	Warsaw	3 075 911	5 396
PBG SA GK	Przeźmierowo	1 377 335	no data
Dom Development	Warsaw	878 753	177
Kopex SA GK	Katowice	1 315 386	2 906
Mostostal Zabrze-Holding SA GK	Zabrze	682 027	2 731
Trasko-Invest sp. z o.o.	Ostrzeszów	535 735	540

Source: List of 500 largest companies, 'Rzeczpospolita' 29.04.2008

15. Foreign investments on the Polish construction market

As of the end of 2007 the flow of indirect foreign investment into the construction market in Poland makes up 20% of total indirect foreign investment in Poland. Approximately EUR 11.4 bn was invested in the Polish property market until 2007. In 2007 investors placed approximately 2.4 bn EUR in the market. The investment demand in 2007 was created mainly by foreign investors. The largest market share was achieved by investors from Germany,

France, the UK and Australia. Transactions completed by Polish investors accounted for approximately 5% of the total investment volume.

16. Investment concluded with participation of PALiZ as of the end of 2007

Company	Country of origin	Employment	Headquarters
Sanitec Group	Finlandia	180	Włocławek
Wienerberger	Austria	60	Oleśnica

Source: Polish Information and Foreign Investment Agency (PALiZ)

17. Condition of the Polish construction materials market

As a result of Polish accession to the European Union, the tax rate for construction materials rose from 7% to 22%. The cost of all the materials needed to build a standard 152 m² house amounted to PLN 169,100 (€50,934) in August, which is lower by 1.6% in relation to July but around PLN 5,700 (€1,717) more than during the same month in 2007, according to data from

demand for particular product groups in August 2007 compared with August 2007 varied from branch to branch. It increased in the case of other materials (28%), construction chemicals (25.5%), tools (19%), wood (13%) and water-proof insulation (2%). On the other hand, dry construction (-4.5%),

wood joinery (-6%), wall materials (-13%), thermal insulation and roofing (-24% in each case) noted a negative dynamic. In turn, overall demand in the first eight months of 2008 compared with the corresponding period of 2007 was stronger in eight groups. The biggest improvement was observed in the following cases: tools and other materials (33% each), construction chemicals (23%), joinery products (22%), wall materials (15%), wood (11%), water-proof insulation (9%) and dry construction (1%). On the other hand, demand cooled off for roofing (-5%) and thermal insulation (-14%)

Polskie Składy Budowlane (PSB).

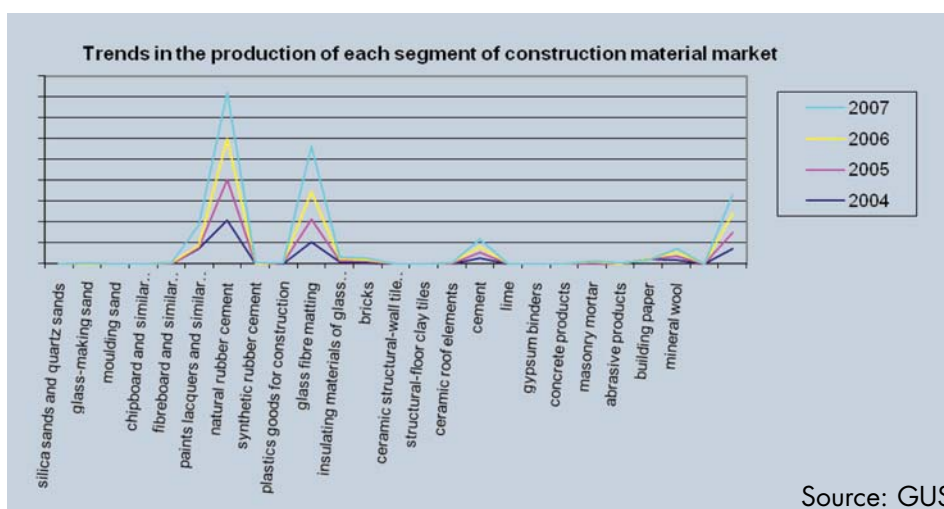
In August were mineral wool (-7%), reinforcement rods, perforated bricks, polystyrene and plaster-cardboard slabs (-5% each), ceramic air bricks and roofing tiles (-3%). On the other hand, prices of insulation materials actually increased, i.e. by 3% in the case of tar paper, and by 1.5% in the case of insulation foil. Revenues from sales of construction materials in shops and warehouses were 10-15% lower than in July and at the same time 1-2% higher than 12 months ago. According to PSB,

18. Rate of production of construction materials

Name of the product	Unit	Production			
		2004	2005	2006	2007
silica sands and quartz sands	thousand tonnes	no data	3803.7	4410.9	5414.7
glass-making sand	thousand tonnes	no data	1593.4	1524.8	2266.7
moulding sand	thousand tonnes	no data	766.0	761.7	782.2
chipboard and similar materials	cubic dm	4,101.2	3,939.6	4,485.9	3,606.2
fibreboard and similar materials	square metres	354,704.0	415,77.0	445,78	481,427.0
paints, lacquers and similar covering agents	tonnes	1,035,948.0	980,998.0	971,304.0	1,117,323.0
natural rubber cement	tonnes	1,529.0	1,426.0	4,441.0	4,447.0
synthetic rubber cement	tonnes	7,053.0	7,503.0	4,443.0	5,306.0
plastics goods for construction	tonnes	524,973.0	550,760.0	634,600.0	1,110,610.0
glass fibre matting	tonnes	36,691.0	39,779.0	38,849.0	47,558.0
insulating materials of glass fibre	tonnes	31,765.0	32,804.0	31,088.0	31,489.0
bricks	mln bricks	609.3	616.3	647.7	839.0
ceramic structural-wall tile and ventilating brick	mln bricks	1,511.1	no data	no data	no data
structural-floor clay tiles	thousand items	no data	7072	4647	6311
ceramic roof elements	thousand items	128,156.0	133,359.0	149,213.0	186,481.0
cement	mln tonnes	12.6	12.7	14.7	16.7
lime	thousand tonnes	2,167.6	1,748.5	1,936.0	2,142.8
gypsum binders	thousand tonnes	557.0	771.0	1,190.1	1,422.2
concrete products	thousand tonnes	13,676.0	15,776.7	18,894.1	22,961.3
masonry mortar	thousand tonnes	3,041.9	2,872.3	3,364.2	3,898.3
abrasive products	tonnes	102,041.0	no data	no data	no data
building paper	square metres	90,636.0	89,339.0	92,508.0	98,379.0
mineral wool	tonnes	123.0	no data	no data	no data
mineral wool thermal insulation products	tonnes	359,237.0	392,934.0	453,064.0	461,865.0

Source: GUS

19. Potential changes in production growth in particular segments of the construction materials market in Poland



20. Prospects for the Polish construction market

According to The Market Economy Research Institute, since 2005, the construction industry has been the fastest developing sector of the Polish economy and there are a lot of signs showing that it will remain the growth leader for the next few years. Factors contributing to that favourable situation of the construction industry will be still working, although probably to a slightly smaller extent. There are a few reasons for growth acceleration in this industry, but the most important one is a favourable situation in the Polish and world economy, as well as positive effects of Poland's accession to the European Union. A crucial event for the improvement of the situation in the construction industry was Poland's accession to the EU. Its effect was an improved macro-economic situation and a higher tendency for making investments among entrepreneurs. Investments (expenditures on fixed assets) in economy are the main indicator of demand for construction services. The investment rate (investment to GDP ratio) increased from 18.1% in 2004 to over 22% in 2007. Growing domestic and foreign (export) demand makes entrepreneurs increase investments. In turn, growing income of the population, a low rate of inflation and small interest rates, as well as an increased access to bank loans resulting from the above-mentioned factors have led to a real boom in the housing construction industry, compared to 1989. It was accompanied by a high increase in flat prices, especially in the largest urban agglomerations. The year 2008, since the very beginning, has been characterised with a high degree of uncertainty caused by nervousness on capital markets. If such recession takes place, or if the economic growth decelerates significantly, similar effects could occur in other countries, including also EU member states strongly. For that reason, dynamics of the Polish export may decrease; however, it is the domestic demand, i.e. consumption and investments, that decide about the economic growth to a larger extent than growth in export. Both sources of strong economic growth from 2007 will still affect the economic growth significantly. Consumption will grow owing to accelerated increase in population's income, whereas growth of investments will be caused by a growing need for extension, modernisation and replace-

ment of the manufacturing instruments. Investment demand will be also reported by foreign investors, who apart from purchases or acquisitions of the existing Polish enterprises, will also make green-field investments. Poland is generally perceived as an attractive place for locating foreign investments, and therefore an inflow of direct foreign investments amounting to more than USD 10 billion has been noted already for several years. Demand for construction services will be gradually increasing on the part of the central and local governments in connection with starting, on a larger scale, investments co-financed from EU funds allocated to Poland. It concerns infrastructural investments, first of all, in the area of road and motorway construction, modernisation of rail connections, investments in environmental protection and the like. In 2008, preparations for „Euro 2012” European Football Cup taking place in Poland will be initiated on a larger scale. It means investments concentration in several places in Poland. Apart from the above-mentioned road and rail investments, it is possible that football stadiums, as well as hotel and catering infrastructure will be built or modernised. A review of sources of investment demand referring to the construction industry (housing construction industry, direct foreign investments, EU funds and preparations for Euro 2012) allows us to state that likelihood of weakened demand for construction and assembly services is small, there are a lot more signs of demand growth in relation to each of those sources individually and all of them together. The Market Economy Research Institute forecasts growth of production sold in the construction industry at about 12% in the years 2008 and 2009, whereas the speed of added value growth at ca. 10-11%.



Invest in Poland

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