

Poland Building Bulletin

January 2007



Building Tender Prices

In a market with strongly growing demand and capacity shortages due to labour migration, Polish building tender prices have risen sharply during 2006 at 15% compared with the previous year. Demand is expected to remain strong and labour rates are still increasing leading us to predict building tender prices to continue to rise, but less sharply than in 2006, with forecasts of 8% in 2007 and 5% in 2008.

2006 Retrospective

With GDP growing strongly at 5.5%^f for 2006, and a stable macroeconomic situation in Poland, demand for construction has risen 17.5% on 2005. Poland experienced one of the strongest rates of demand growth in the European market, which is generally buoyant. As a result building tender prices have risen by 15% with contractors and suppliers improving margins and labour rates and material prices increasing.

Contractors are clearly being more selective in choosing to tender. As a result, it can sometimes be difficult to assemble a satisfactory bid list if the tender period is short or the project or investor are seen as being 'difficult'. We also note a trend of contractors becoming more commercially aggressive post-contract, and this indicates an increasing need for investors and their advisers to carefully formulate contract documents and control change.

Freedom of labour movement in the European market has seen a strong trend for Polish workmen to migrate to Western European markets where demand is strong and wages higher. This has led to a general shortage of labour and sub-contractors in the Polish market leading to sharp increases in labour rates of between 50% and 80% depending on trade and region.

Costs of materials and equipment also rose strongly during the year, particularly for steel, cement, copper and energy due to strong global demand.

Our Forecast for 2007

Polish GDP is expected to continue to grow strongly, but at slightly lower rates than in 2006, while the zloty is expected to remain steady against the Euro, and consumer price inflation remains under control.

The industry expects labour shortages to continue with labour rates increasing by as much as 45% in major centres and up to 70% elsewhere.

Construction and Other Data	
Construction Output Change (YoY 06 v 05)	+17.5%
Construction Output 2005 (PLN millions)	78,564
Average Exchange Rate PLN:USD (2006)	3.10
Average Exchange Rate PLN:EUR (2006)	3.89

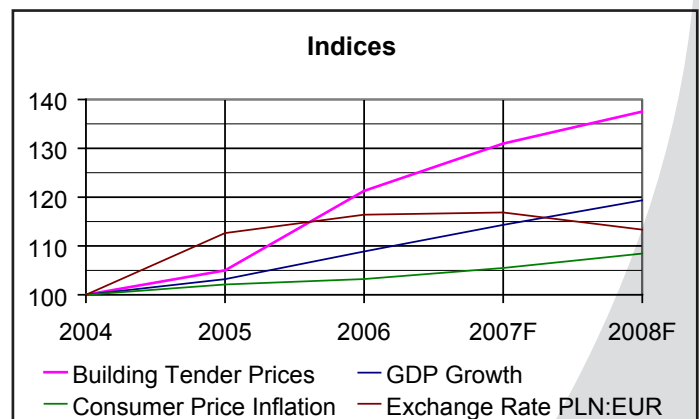
Where price lists for materials and equipment from many suppliers were revised upwards twice in 2006, the industry anticipates more modest increases in 2007.

Overall we anticipate Polish Building Tender prices will rise by 8% in 2007, although there will be regional and sector hotspots. The industry expects strongest growth of tender prices in the residential sector, while some regional centres such as Wroclaw and the Tri-City conurbation, with particularly strong local demand, will experience rises above the average.

We anticipate that contractors will continue to be selective about tendering and will remain commercially aggressive post-contract.

Looking to 2008

Forecasts for the macroeconomic situation remain positive with good GDP growth and a stable currency. We anticipate



some capacity growth in response to the rising demand of previous years resulting in building tender price growth of 5% for 2008.

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