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# **CANADA POLAND RESIDENTIAL REAL ESTATE INVESTMENT MODEL**

**An Evaluation of Poland's Residential Real Estate Market**

## **SUMMARY**

Canada Mortgage and Housing Corporation  
Société canadienne d'hypothèques et de logement  
Canadian Housing Information Centre  
Centre canadien de documentation sur  
l'habitation



**HOME TO CANADIANS  
Canada**

## 1 Economic overview

Ten years after launching an ambitious program of economic transformation, Poland is seen in many respects as one of the most successful economies in central and Eastern Europe. Unlike other countries, Poland has not encountered a mid-course depression, its currency has not been subject to speculative attacks, and the economy is slowed down only moderately in the aftermath of the Russian crisis. The success of Poland's economic transformation comes from a well-orchestrated combination of sound financial policies perseverance with structural reforms.

During the last four years, output has expanded at robust rates at 6 to 7 per cent, inflation has declined gradually and living standards have improved. Inflation is projected to maintain its downward trend and industrial production growth is forecast at 6,0% in 2000 and 7,0% in 2001. This achievement largely reflects the dynamism of the private sector, as opposed to the mediocre results of the bloated state-owned enterprises. Deregulation and small-scale privatization have led to the emergence of a vibrant sector of small and medium-sized enterprises. More than two million entrepreneurs now operate in such sectors as retail trade, construction, and light manufacturing industry. They make an important contribution to output growth and job creation and form a new class of consumers.

The outlook for Poland's economy remains positive with analysts forecasting lower inflation, a stronger currency and rising gross domestic product. In 1999, real gross domestic product growth slowed to an estimated 3,5% - 4,0%, down from 4,8% in 1998, but still almost double that in the European Union.

During 1999, Poland made important political, social and economic strides to further develop an increasingly stable investment environment. Politically, Poland joined NATO as a full member and is preparing for European Union membership. Economically, Poland commenced pension reforms and approved a plan to restructuring and to privatize its railway company, PKP. In addition, LOT Airlines, the PZU insurer, Polski Koncern Naftowy oil company and Central Europe's third largest bank, Bank Pekao, were partially privatized.

Poland's current concern is account deficit, which approached an estimated USD 11 billion, or 7,0% GDP, at the end of 1999. However, with increased privatization activity anticipated in 2000, new foreign direct investment should provide the economy with funds to finance the deficit and required social security reforms.

Poland is the leading market in the Central and East Europe region for foreign direct investment, which rose by an estimated USD 8 billion in 1999 to a total of approximately USD 40 billion. A further USD 6 billion is expected in 2000, due in large part to continued privatization of industry.

Inward foreign direct investment, the largest in Central and Eastern Europe in absolute dollar terms, is also an important factor behind the successful transformation.

Foreign investors initially focused on the domestic market, which is the largest in the region, and labor-intensive sectors, but they are likely to step up exports to western



markets and to be involved increasingly in activities with a higher technological content. Foreign investment aimed at the region is anticipated to stay focused on Poland given the market size, relative state of infrastructure and as its economic growth is considered sustainable over the next decade.

Private consumption is projected to grow unabated as Polish consumers enjoy strong increases in real disposable incomes and continue to adjust to an environment where consumer goods are plentiful and new services emerging. With the expected revival of activity in Europe, which now accounts for two-thirds of Poland's foreign trade, exports should return to double-digit growth rates. The projected economic recovery should foster job creation, but the number of unemployed will decline only gradually in the next two years as large groups of new school leavers will join the work force and increase the number of job - seekers.

## 2 Foreign investment regulations

A company with foreign share holding formed in Poland is under the Polish law and treated in the same manner as a company with Polish share holding. Full repatriation of after-tax profits and capital is allowed, and companies with 100% foreign participation are permitted.

Capital introduced into Poland by foreign investors may be freely withdrawn. Full repatriation of profits and divided payments is allowed without obtaining a permit. Companies must account for withholding tax to the Polish Tax authorities on any distributed dividends unless a treaty provided otherwise. To avoid double taxation, Poland has devised tax treaties with more than 60 countries.

Bankruptcy laws, competition laws and protection of intellectual property are established according to Western standards.

Except for strategically sensitive industries, all Polish industries are open to private enterprise and foreign investment.

### Real estate

Acquisition of real estate by foreigners may take place solely upon permission from the Ministry of Interior and Administration. The law does not apply to the transfer of proprietary rights to heirs.

A foreigner intending to purchase real estate may apply for a permit issuance promise. The promise is issued in the form of an administrative decision. It is valid for 6 months from the date of its issue. A promise should also be issued upon an application of a legal person having a seat in Poland and controlled by persons deemed by the law as foreigners. During the period of the promise's validity, the Minister may not refuse to issue a permit. However, this may be done, if facts relevant to the case have changed significantly. All provisions applicable to a permit also apply to the promise.

A permit from the Minister of Interior and Administration is required for purchase or receipt by a foreigner of 50% of shares or stocks in a commercial company, being an owner of perpetual usufructuary of a real estate, or purchase or receipt of shares/stocks in a controlled company by a foreigner not being its share (stock) holder. This does not apply to a situation when a company in question owns apartments.

### **Corporate income tax**

All business entities and organizations are required to pay corporate income tax. Corporate income of legal entities is taxed at 34%. The government plans to bring tax down to 28% by the year 2000 and 22% by the end of 2003. Losses incurred in an accounting period can be carried forward in five equal parts over the next five years. In addition, there are various relieves from income tax.

Corporate taxpayers having their seat or the location of their board of directors in Poland are liable to tax on their whole income, irrespective of the place where it has been earned.

### **Expatriate taxation**

The income tax law applies to all persons residing in Poland or persons whose temporary stay in a given tax year exceeds 184 days. These individuals are taxed on their world wide income. This does not apply to persons who arrive in Poland for a temporary stay in order to take employment at foreign subsidiaries, "foreign small business enterprises", Polish companies with some overseas participation, or branches and representative offices of foreign enterprises and banks. These individuals as well as non residents who work in Poland for less than 183 days in a given tax year are taxed only on income earned or arising from a source in Poland.

### **Tax treaties**

Poland has entered into bilateral treaties with over 60 other countries and is continuing an active policy of developing a wide treaty network as the number of its trading partners increases. The Canada is good example of this country. The tax treaties take precedence over domestic legislation.

These international treaties aim at ensuring that income and gains are not taxed twice, or if they are, that the total tax imposed on the two countries does not exceed the higher of the two rates by means of a credit. Tax treaties substantially decrease withholding taxes on interest, dividends and royalties.

### **Investment incentives to encourage foreign direct investment**

Eligibility for investment incentives is left to the discretion of the Ministry of Finance. Furthermore, foreign investors can qualify for special investment relieves. To qualify for investment relief, companies must show profits of 8% of total revenues (4% in the case of food processing, construction, fishery and tourism and 2% recycling of waste).



Companies commencing activity, and investing at least Euro 2 million, may deduct the investment expenses from their revenue in a given year and in the next 3 years up to 10 % of income per year.

If the profits of a company derived from export constitute more than 50% of the total revenue, or revenue from export in the tax year in which the taxpayer acquired the right to apply to deduction exceeds the equivalent of Euro 8 million, investment expenses may be deducted up to 30% of income.

Other possibilities to obtain investment relief are granted for investments connected with the implementation of licenses, patents and results of domestic research and development projects. Up to 30% of income per year can be deducted in forthcoming cases.

### **Special economic zones**

Special Economic Zones offer exceptionally attractive investment opportunities for companies interested in starting operations in Poland.

Companies setting up business in these zones will be eligible to a very attractive incentive package including:

- total exemption from corporate income tax for a period of 10 years
- exemption from 50% of corporate income tax for another period of 10 years
- free repatriation of company profits
- accelerated depreciation

These incentives are granted to investments above a certain volume in terms of invested capital or job creation. For smaller investments, the corporate income is tax exempt until the entire invested amount is deducted. Additional tax credits may be enjoyed when companies located in the special zone who are producing products destined for export are not subject to export duties.

Currently there are now 15 developed Special Economic Zones and 2 industrial parks.

The full text of the new Law on economic activity in Poland you can download from the website of the Polish Embassy in Canada, Economic and Commercial Division (<http://www.poland-canada.org/download.htm>).

### **3 Residential construction**

At present, there are 11 687 thousands apartments in Poland, which means a 10 per cent increase on 1990. Apartments built by housing cooperatives and private individuals dominate the housing stock. The number of flats provided by employers has been declining, while that of flats provided by developers and Social Building Associations (tenement houses) has been growing.

In 1997, the downward trend of apartment completion in Poland was arrested. In 1998, 75 200 flats were completed, which was almost 1 500 more than in the previous year. This increase was recorded almost exclusively in the field of private individuals' buildings. In 1998, 78 815 permits for construction of new residential buildings were issued. Flats in buildings constructed by private individuals accounted for 61 per cent of that number.

In the market of the construction of tenement houses for medium-income groups, the average completion period was 20,9 months.

Housing credits have contributed to the improved performance of residential construction. Mostly private persons who need funds for financing the final stage of constructing their own house or apartment take such credits. In Poland, investment projects in construction are financed largely by investors' own funds, while only 12 per cent of investment outlays are financed by housing credits (compared to some 60 to 80 percent of housing construction and repair costs in Germany).

In Poland some 1,5 million families are waiting for their own apartments, and 10 million live in substandard conditions. In 1998, the number of constructed apartments per 1 000 inhabitants was 2,0. According to estimates, 500 000 new apartments will be completed in Poland by 2010. Construction potential is estimated at 150 000 apartments annually.

For several years, the average size of newly built flats has been increasing insignificantly, largely due to the increase in the size of private buildings. Traditional building methods prevail (60,8 per cent of houses). The number of houses built by means of the large-panel method has been declining, while the share of houses built using the monolith method rises from 6,5 per cent in 1997 to 10,9 per cent in 1998.

## 4 Property market

The property market in Poland has been growing very rapidly. At present, some 8 500 property agencies are operating in Poland, of which above 90 per cent are enterprises owned by natural persons, employing less than five persons. Additionally, 4 400 firms deal with the rental of private or leased property, of which 80 per cent employ less than five persons. The expansion of the property market is fostered by investment activities of developing companies. Developers usually offer apartments for rent and subsequent sale.

Considerable price variations can be noticed on the property market in Poland. In large cities prices reach European levels (this applies particularly to apartments in Warsaw). In small towns prices are much lower. In rural areas, apartments or other property that used to be owned by former state-owned farms (PGR) can sometimes be bought very cheaply. According to experts, opportunities of buying property at rock-bottom prices will expire within two or three years.

## Real Estate



Real estate is understood as land, buildings affixed to land, and apartments. The following legal forms regulate the use of real estate in Poland:

- ownership;
- perpetual lease (usufruct), granted for 99 years or less, relates to land owned by the State Treasury and communal land. Perpetual leasehold entitles the holder to use and administer the object of the lease. The leaseholder is charged an annual fee. He is also entitled to sell the right of perpetual usufruct. Buildings constructed by a perpetual leaseholder on land used by him are his sole property;
- tenancies and leases – obligations of parties arise out of agreements between the owners and interested parties.

Under a tenancy agreement, the lessee acquires the right to use real estate and realize gains (for example, crops in relation to the tenancy of a farm) out of its use during the validity of the agreement; he should pay installments to the lesser.

A lease agreement is entered into between the owner or perpetual leaseholder of the property and its user. The user is entitled to use the property in exchange for rentals. If the apartments belong to the state or commune, they may also be rented by way of administrative decisions of authorized state or communal agencies.

## **Sale and Purchase of Real Estate**

The legal form of the sale and purchase of property in Poland depends upon the status of the owners (legal or natural persons, the state or communes) and the buyers (national and foreigners). Foreigners are those natural persons without Polish nationality, legal persons domiciled abroad and companies domiciled in Poland but with foreign participation in the owners' equity in 50% or more of the capital.

If natural or legal persons own property, then the sale of the property or the associated perpetual lease and all tenancy and lease agreements fall under the regulations of the Civil Code.

Sale and perpetual lease agreements must be notarized.

The sale of property or perpetual leases belonging to the state or communes is made through bids. An authorized agency of the state or the commune makes a public announcement on the planned sale or release of the perpetual lease, the tenancy or lease of properties, six weeks prior to releasing detailed information, such as their square area, bid prices and rentals. Once the bidding formalities are over and the procedure is terminated, appropriate changes are made in Real Estate Registers.

The purchase of property or acquisition of perpetual lease rights, by foreigners requires a permit issued by the Minister of Interior and Administration.

Permits are issued upon the application of the interested parties describing the transaction and containing information as to the property, including inter-alia, its valuation and the reasons underlying its purchase. The permit designates the buyer, the object of the transaction, its proceeds and important terms.

Poland's legal framework does not provide for lease-purchase and similar contracts, but there are a variety of alternative forms to achieve this structure.

Companies with foreign capital participation should obtain a permit from the Minister of Treasury prior to signing an agreement on the lease and purchase of the property of a state-owned legal person for a period longer than six months within Polish territory.

The following fees are paid upon the purchase of a title to perpetual lease:

- stamp fees – these are charged on the purchase of property or acquisition of a title to perpetual lease and amount to 5% of its value. In the case of lease and rent agreements these fees are charged at a rate of 1% of the agreement installments.
- notary fees – the normal fee charged in notary offices depends on the property's value (generally 3% of the property's value).

## 5 Legal framework

The legal framework for a housing financing system that can stimulate construction activity among middle-income households is already in place. With the exception of property taxes and registrations. Key legislation has already been passed by the Polish Parliament (Sejm) in the following areas:

- mortgage financing
- home and building savings accounts
- pension funds.

Before the financing system is completely operational, logistics for property assessment, sale of mortgages, hypothecation must be in place. This is an on-going process.

The 1997 Act on Mortgage Banks and Mortgage Bonds established a legal framework for the operation of financial institutions to provide housing credits to Polish consumers.

A mortgage bank is mainly involved in granting long-term (25-30 years) credits on housing construction, commercial building projects, and public housing projects. The necessary capital is acquired through the issue of long-term debt securities (mortgage bonds). Thanks to their narrow scope, a high level of transparency and specialization characterizes the operations of mortgage banks. As a result, mortgage banks have low operating costs, and can therefore offer competitive interest rates on their credits.

The days when individual developers dominated the Polish real estate market is slowly coming to an end. Financial institutions investing capital acquired from securities, individual deposits and other operations will replace them. The 1997 Act on Mortgage Banks is reinstating the mortgage bond, a security used to finance real estate development, and creates a legal framework for the secondary turnover of real estate.

A mortgage bond is a debt security, issued by mortgage banks and based on their receivables arising from granted mortgage loans, and used to refund such loans. A mortgage bond is based on the mortgage-secured receivables of a mortgage bank.



The bonds are issued to owners, and yield a regular profit. The purchaser receives regular interest, and when the bond is bought back, the purchaser receives the full amount of its face value. Mortgage bonds will be issued in zloty and listed on the Warsaw Stock Exchange.

According to the Act, a mortgage bond must include a name, the legal basis for the issue, the issuer's name, the denomination of the bond's face value, interest rate, the date when it starts accruing interest, interest payment dates, the date and place of issue, signatures of authorized bank personnel, and a trustee's signature. Issues longer than five years must also include the terms for redeeming the bonds and an earlier buy back.

The introduction of mortgage bonds should solve the problem of insufficient investment capital, as it will acquire capital that is "frozen" in actual real estate, without the need to sell it.

Mortgage banks are closely supervised by state institutions (hence the long license-granting process by the banking Supervisory Commission), and their operations are subject to special restrictions. The Act limits the scope of operations by mortgage banks to low risk investments. The amount of debt securities issued is closely related to the bank's equity, and its share in stocks or shares of other subjects may not exceed 10 per cent of the bank's equity. Moreover, mortgage banks are subject to a bankruptcy clause that guarantees the return of invested capital, along with interest, in case of bank's bankruptcy. Because of this, Mortgage bonds are highly reliable securities.

Of course it should not be expected that mortgage banks would become a magical solution to the problems of the Polish housing industry. In future years, other institutions, such as housing funds, perhaps also housing-savings funds, and mortgage loans granted by regular banks, will finance housing and construction. Some of the funds will continue to be assigned by the state, and distributed by the National Mortgage Fund, or the Housing Fund. The market will also include specialized banks focusing on housing and construction loans,

However, the special features of mortgage loans offered by mortgage banks (i.e. favorable and regular interest, long-term repayment periods) should make them more attractive to individual customers for whom regular bank loans are too costly.

The appearance of mortgage banks, and mortgage bonds, should also favorably affect the domestic capital market, because experience proves that mortgage securities are popular with foreign investors.

### **Memorandum of Understanding on construction sector, between Poland and Canada**

To aid in the transition, on January 12<sup>th</sup>, 2000, Canada's Federal agency (Central Mortgage and Housing Corporation) signed an agreement in principle with the Polish government to help operationalize their real estate development system. This MOU, on housing programs, research issues and housing related trade matters, formalizes arrangements between the two governments for co-operation and exchange of information that will benefit both Canada and Poland.

A steering committee will be established to determine priorities and develop a long-term work plan. It is expected to meet early to work out details, execute the plan and review progress.

Cooperation will include the following:

- exchange of information, research materials and technological expertise related to construction, including architectural-building administration and building control;
- research and technological expertise in certification;
- exchange of research, training programs, and technological expertise;
- joint research on housing related issues;
- organization of seminars, workshops and conferences related to the housing industry.

## 6 Development prospects

Prospects for the development of construction and, by the same token, the rise in demand for building materials look very good. The increase in construction and assembly production is projected at 12 per cent in 1999, 14 per cent in 2000 and 15 per cent in 2001.

Several years of economic growth had a strong impact on the rise in investment in construction. During that period, the increase in the construction sector output outpaced by far that in GDP and industrial production. Large investment projects, such as motorway construction, development of the power sector, environmental protection and telecommunications will determine the level of investment demand, along with the overall level of investment outlays in the economy. The local government system reform and the introduction of new administrative districts (powiat) is also likely to intensify investment in sports centers, cultural centers and infrastructure (water supply and sewage systems). The rise in demand for industrial and service facilities will stimulate the growth of profitability of construction services.

The growth rate of foreign investment has not diminished for several years. Construction was one of the fields of foreign investors' activities. Poland's planned accession to the European Union will also contribute to the increased involvement of foreign investors in Poland.

Demand for office, retail and hotel space has been very high for the past few years. In Warsaw and in other big cities the number of inhabitants per sq. m of office or retail space is among the lowest in Europe.



Demand for apartments continues to be very high in Poland. By 2010, 500 000 new apartments are to be built. The growing wealth of the population, the steady decline in inflation, small capital-intensity of the construction market and favorable borrowing conditions are to be the main factors stimulating the expansion of residential construction in the future.

Production and exports of building materials, in particular builders' carpentry products, bricks and roofing tiles, has been growing since 1994. At the same time, the high value of imports is an indication of a substantial absorptiveness of the Polish market and provides reasons to suppose that in the future domestic producers will take over a part of the demand currently satisfied by foreign manufacturers.

Total investment in new construction in the residential sector reached Polish zlotych 14 billion (\$3.5 billion) in 1999, it is 9% higher than in the previous year.

The vast majority (68%) of last year's investment still came in the form of cash provided by individuals building homes or buying apartments, the report stated. The banks that financed residential construction contributed to just 15% of 1999's total investment in the sector, which roughly equals the investment committed by public budgets.

The share of banks is steadily increasing, however. In 1998, banks' contribution to total investment in the residential sector was only 9%.

Despite higher investment in the housing sector in 1999 as compared with the year before, the number of apartments completed (77 400) was 4% lower than in 1998. Nevertheless, the higher investment resulted in a large number of start-up residential developments. In 1999, the number of apartments started reached 45 000 units, 21% more than in 1998.

## **7 Investment model**

### **Canada Poland Residential Real Estate Limited Partnership Model**

Canada Poland Residential Real Estate Limited Partnership Model would structure two types of investment:

#### **Financing of real estate development and construction projects:**

led by Canadian entrepreneurs and developers; preferably in association with Polish partner, knowledgeable of the local real estate, with a concrete record of achievements and the financial capacity to contribute to the project;

mainly residential real estate development projects in which houses and apartments will be sold (not rented);

with 1:1 ratio of economic spin offs for Canadian goods and services.

#### **Financing to promote the development of Canadian construction companies abroad:**

projects carried out by general contractors, consulting engineers or specialized firms,

for example, proposal preparation costs, bids, creation of company consortiums, start-up costs, including market studies and fees for continuing activities by the company in Poland.

Limited Partnership is a relatively popular type of business entity and the chosen model for investment in Poland's residential real estate. It attempts to secure the best of both worlds: limited liability on the part of the limited partners and taxation at personal rates.

This form also requires a general partner (or partners) to serve as managing agent for the entire operation. In addition, termination provisions are typically provided in the agreement.

The form would be attractive to investors who seek a passive investment, free of management problems and obligations, and one in which liability is limited to the amount invested, tax losses offset ordinary income, and where marketability is not the most important consideration.

The limited partnership of Polish real estate provides certain property rights. Examples are right to use and right to sell the property. The quality and quantity of property rights associated with the ownership of real estate are of great concern, because these rights are valued in the real estate market. Any limitation on these rights reduces the investment's value. At the federal government level, the greatest impact on property rights consists of income and wealth taxation.

## 8 Certificates

The legal framework of the construction sector in Poland is set by three laws, which were enforced in 1995:

- Law on Land Management
- Building Law
- Law on Public Procurement.

### Construction permit

Polish Construction Law (Prawo Budowlane) was changed in to reflect changes brought by market economy. The Building Law provided for more restrictive conditions of applying for building permits, in alignment with European Union Standards.

It is necessary to have construction permits to start building a house in Poland. Local authorities issue the permit. It is important to know that under Polish law, land is classified. If zoned for agriculture than it is not possible to build anything there. Changing the classification is a long and complicated process, especially discouraging for foreign companies.



An investor must apply for a Building Permit. The application is filed with the local authorities. The Project Documentation filed must comply with environmental projects and local authorities' requirements concerning development of the land. It also includes a proof that the investor is legally entitled to build on the land, i.e. he owns the land.

The Building Permit authorizes the investor to start the project. Also, much of the land outside the cities has no infrastructure. Adding sewage, electricity, and water might add over 30% or more to the overall cost as opposed to 14% in the Canada.

Foreigners must receive an additional permit from the Ministry of Interior and Administration to purchase land in Poland. In most cases such permits are issued.

With these many obstacles in the Polish laws and regulations, the best approach for a foreign company interested in this market is to find a reliable developer and to introduce the product in cooperation with the developer. Local developers are aware of the availability of land, they know the administrative procedures and know the marketing techniques effective in this region.

### **Polish standardization system**

Poland has introduced a number of compulsory standards that apply to various construction materials and equipment. These standards are obligatory. Any product that these standards refer to, brought into the Polish market must adhere to these standards. Also, because Poland is in the process of joining the European Union, Polish standardization institutions are working on adjusting the Polish standards to the European ones. This is a long process that should take at least several years.

When a construction product is introduced into the Polish market and there are no standards that it adheres to, then it must be tested and a technical approval is required. Appropriate authorized institutions issue the approval. Applications for the technical approval should include:

- technical description of the product specifying its qualities and the name of the foreign manufacturer and exporter;
- application range of the product, how it should be used, stored and transported;
- technical certificates issued on the product by appropriate foreign institutions of the country of origin;
- certificate issued by the Urban Hygiene Office on the influence this product has over the health of humans and animals;
- other documents on research done on the product by foreign research institutes with a list of projects where this product was used.

Certain construction materials must comply with the safety regulations and they required a safety mark "B" safety certificates. Building products introduced into the Polish market must obtain technical approval stating that they are in conformity with existing standards. Products with a "B" safety mark certificate (the mark is awarded in compliance with the certification system principles and is proof that given product does not pose a threat to life, health, property or the environment), or with declared compliance with Polish norms, are considered to be allowed for trading and application in construction. Some 400 building materials in Poland (including fired clay bricks, hollow blocks, ceramic roofing components, construction glass) are required to have "B" safety mark certificates.



Technical approval documents are obtained from designated research-development institutes. The central institution performing the tests for most building products and materials is the Institute for Building Technology (ITB). ITB certifies products such as siding, roof shingles and bricks. The Institute is located in Warsaw. Another institute that performs tests for technical approval is the Research and Development Center for the Insulation Industry (Centralny Ośrodek Badawczo-Rozwojowy Przemysłu Izolacji - COBRPI). Installation materials used in the construction industry are tested by the Research and Development Center for Installation Technology (COBRTI). Application processing at ITB, COBRPI and COBRTI can take up to one year.

For technical approval, the applicant must file a written application in Polish. Each product must be clearly described, including the range of pressure and temperature in which the equipment works. A copy of the application must also be submitted. The copy will be stamped by the institute and given back to the applicant as a receipt. A list of documents enclosed with the application must be attached to the application. All enclosures must be clearly numbered. Technical documentation or manuals should accompany the application. If the equipment consists of any plastic elements, it is important to include information on the materials used to make those elements. If the application is for a "system" (e.g., air-conditioning system) it is important to list all elements of the system, with names, types, and the manufacturers of individual elements. Any research that has been conducted on the equipment must also accompany the application. Any certificates that have been previously granted by appropriate Canadian and foreign organizations should be included, as they can help to speed up the application process.

All construction materials require a certificate from the Polish Institute of Hygiene (PZH). PZH certifies that the material is not harmful to human health and therefore is permitted to be used by the Polish construction industry.

For all heating devices, heating parameters must be stated in the application. Hydraulic parameters for all hydraulic elements and durability test results for those elements, if such tests were conducted, should also be included. Any test results and certificates issued by appropriate foreign bodies are helpful. All documents should be translated into Polish, and measurements should be translated into the metric system.

Copies of any standards applicable in the country of origin of the product must be attached to the application. International standards, if tests were performed to verify compliance with such norms, can also be supplied and can help to speed the application process.

If testing institute officials deem it necessary, samples of the product may need to be provided to them for further examination and testing. The product samples must have labels attached, which include the name of the applicant, manufacturer, product and application date. The testing institute to make sure that it is complete first checks each application. The applicant will be notified if any documentation or information is missing. A certifying institute may request additional documents upon request. The



testing institute has received after all necessary documents, the application will be processed and the technical approval issued or denied. Approval may be given for more than one type of product when such equipment has the same technical parameters.

The fee charged for each permit is calculated on an individual basis, depending on the amount of work that is required for making a decision. These technical approvals are issued for a period not to exceed five years. For new-to-market materials the approval is for a period not to exceed three years. After the initial three-year approval period, permits are generally renewed for periods of five years. Some building products, after receiving the necessary technical approval, must also receive a safety "B" certificate.

## **Custom duties**

All products are subject to customs duty (based on the commodity's value) and VAT tax. The VAT for building products is still 7%, although there have been proposals to raise it to first to 12 and then to 22 percent Customs duties for following groups of products used in housing industry:

- wood and wood products (i.e. windows, doors) - 9%
- stone and stone products - 9%
- bricks - 9%
- ceramic products (i.e. washing basins) - 9%
- metal products (i.e. pipes, heaters) – 14,3%
- steel constructions – 14,3%
- aluminum products - 9%
- wood prefab homes - 6%

Commodities brought from the EU are subject to a considerably lower customs duty. The difference is from 3% to 9%. This makes these products very competitive vis-a-vis Canadian products.

## **9 Polish consumers**

### **Types of housing systems preferable by Polish consumers**

Traditional Polish construction – concrete blocks with light styrofoam as insulation, known as YTONG system is based on the building system in Sweden, Germany and France.

Demand for North American technology is growing – Wood Frame – Brick Construction-wool insulation. Consumer housing market is more accepting of this technology and this acceptance will continue. As well the North American building technology provides Canada, the competitive advantage that Canadian development companies are looking for. By adding value by providing better insulation values to Polish homes, Canadian companies will enhance the efficiencies and reduce the costs of maintaining residences in Poland.

## Regions of growth for housing services in Poland

The National and Rural Development Policy Concept adopted by the Parliament in November 1996 was the first to classify Polish Localities in terms of growth and their status under the European Union methodology. By the year 2020, the population in the largest Polish towns will have grown by as much as 8 million people. The projections are the foundation for the following classification of the growth pattern for the major Polish towns:

- **The Metropolitan City of Warsaw**
- **Metropolitan Cities**
- **Tier I: Krakow, Gdansk, Poznan**
- **Tier II: Katowice, Lodz, Wroclaw, Szczecin**
- **Potential Metropolitan Cities: Bydgoszcz, Lublin, Bialystok, Rzeszow**

The fastest growing property market is in Warsaw, especially as regards commercial property – office space and residences. The market is booming thanks to the considerable demand for real property by the quickly growing middle class. Demand for office and retail space has been growing fast for several years. Investors are largely interested in big cities, such as Poznań (situated relatively close to Berlin), Cracow and Gdańsk-Gdynia-Sopot.

## Sales

Apart from demand from Polish citizens, there is growing interest from expatriates (also Polish Canadians) prepared to purchase rather than lease. This is a direct result of recent changes in government policy that allow foreigners to buy real estate.

The greatest demand and largest number of sales is for Class C buildings, where the average size of unit sold is 50 m<sup>2</sup> and average price is \$700 USD/m<sup>2</sup>. The average size of a Class B unit is 90 m<sup>2</sup> at \$1000 USD/m<sup>2</sup>.

Demand for Class A property is still high from the Polish “upper class” and expatriates. Prices may range as high as \$3000 USD/m<sup>2</sup>. The average size of a unit is 150m<sup>2</sup> with the trend being towards 200 m<sup>2</sup>.

## Trend forecast

As disposable income increases and mortgage financing becomes more affordable, Poland will experience steady growth in constructions and sales of residential real estate should increase. First time home buyers will also experience moving into larger, more expensive residences which in turn will keep developers busy to free up those flats. The number of renovations of existing apartments will continue to increase as the first time



home buyer is able to afford a smaller but less expensive flat. The growing number of Home Improvement Centers near the city proper will also enhance the number of renovations.

## 10 Business practices

The distribution system for building materials in Poland is developing fast. The number of companies that are able to purchase products in large quantities from abroad is growing. They open warehouses, where the materials can be stored. In most cases a distributor offers a range of products to make its offer competitive and interesting for buyers. There are still small distributors, but they do not play any important role on the market.

Considerable numbers of distributors have knowledge of the market and a network of contacts, an asset gained over the years of experience of working in this field. Those who start small, with no capital, gradually develop into financially well-established entrepreneurs that seek new clients. The most sophisticated ones get exclusive rights for one, preferably well-known, manufacturer and work on establishing that company's presence on the Polish market. A well-known brand or company name that they get themselves associated with is an asset for them in their contact with Polish clients.

In the housing industry developers and real estate agents are often the best contacts as distributors. The development of a real estate market is one of the major changes that occurred on the Polish market in the last 10 years. The number of real estate agents grew considerably. Some of them cover the whole country. Most transactions of buying/selling houses and apartments are handled by these agencies.

In Poland, the role of distributors often implies any type of Polish representative who will sell a product as a wholesaler, manufacturer's representative, or agent. A Polish distributor may assume one or many of these roles, and act as importer and lead representative for the product in Poland. Foreign companies seeking a distributor in Poland are encouraged to find one who is experienced, knowledgeable, and well-connected to existing lines of distribution for similar products.

Increasingly, small Polish companies tend to assume the role of retailers and distributors, as they are actively involved in importing and taking possession of the product(s). Distribution networks will continue to expand in scope and complexity as industries and companies continue to privatize.

Professional developers are new to this market and they are limited in number. Few of them offer finished housing. In most cases they encourage potential clients to join a housing project and participate in financing. Also housing cooperatives act in a similar way and they are successful in accomplishing their projects.

To find a distributor it is useful to visit trade events featuring the housing/building/construction industry (the most important – BUDMA Trade Fairs). There are many such events in Poland - some are large international events, and some are more local shows where local industry representatives promote their products. It is

worthwhile to visit the events to get acquainted with various company representatives before making final decision. Catalogs of the events serve as the best source of updated information.

Local housing/construction magazines can also be helpful in finding potential distributors. "MURATOR", a monthly magazine, popular among house builders and buyers, can be a useful source. It specializes in the promotion of wood frame houses and can serve as a good source of information.

Joint ventures have also proven to be successful for many Western businesses in Poland as these partnerships establish a symbiotic relationship between the Canadian company and the Polish affiliate. For example, the joint ventures provide Polish companies with access to current technologies and capital, while allowing Canadian firms access to the local business environment, networks of contacts and potential markets.

While there are significant opportunities available for Canadian companies interested in entering the Polish construction and building materials market, exporters should be aware of the attendant risks. Most notable is the lack of transparency in the business, legal and regulatory environments. However, foreign companies can circumvent potential problems by working closely with business experts operating in Poland. Many international business and consulting firms offer risk assessment services, market surveys and expert legal counsel for foreign exporters.

Canada Mortgage and Housing Corporation organizes a few times per year the out-coming and in-coming construction sector business missions, between Poland and Canada.

## 11 Useful contacts:

1. **The Ministry of the Treasury**  
**Ministerstwo Skarbu Państwa**  
 00-522 Warszawa, ul. Krucza 36,  
 Poland  
 Tel:(48-22) 695-8000 (operator)  
[www.mst.gov.pl](http://www.mst.gov.pl)
2. **The Ministry of Economy**  
**Ministerstwo Gospodarki**  
 00-950 Warszawa, Pl. Trzech Krzyży 5,  
 Poland  
 Tel:(48-22) 695-5000 (operator)  
[www.mg.gov.pl](http://www.mg.gov.pl)
3. **The Ministry of Finance**  
**Ministerstwo Finansów**  
 00-916 Warszawa, ul. Ćwiêtokrzyska 12,  
 Poland  
 Tel:(48-22) 694-5555 (operator)



[www.mofnet.gov.pl](http://www.mofnet.gov.pl)

4. **Polish Agency for Foreign Investment**  
**Państwowa Agencja Inwestycji Zagranicznych S.A. (PAIZ)**  
 00-559 Warszawa, Al.Róż 2, Poland  
 Tel:(48-22) 621-6261, 629-5717  
 Fax:(48-22) 621-8427  
[www.paiz.gov.pl](http://www.paiz.gov.pl)
  
5. **The Ministry of Regional Development and Construction**  
**Ministerstwo Rozwoju Regionalnego i Budownictwa**  
 00-926 Warszawa, ul. Wspólna 4, Poland  
 Tel: (48-22) 661-8600  
 Fax:(48-22) 621-2550
  
6. **The Main Office of Construction**  
**Główny Urząd Nadzoru Budowlanego**  
 00-926 Warszawa, ul.Krucza 38/42, Poland  
 Tel: (48-22) 661-8010  
 Fax: (48-22) 661-8142
  
7. **The Office for Public Procurement**  
**Urząd Zamówień Publicznych**  
 00-582 Warszawa, ul Szucha 2/4, Poland  
 Tel: (48-22) 694-6206  
 Fax:(48-22) 694 -6206  
[www.uzp.gov.pl](http://www.uzp.gov.pl)
  
8. **The Agency for Motorways Construction and Operation**  
**Agencja Budowy i Eksploatacji Autostrad**  
 00-928 Warszawa, ul.Chałubińskiego 4/6,  
 Poland  
 Tel: (48-22) 620-7053  
 Fax: (48-22) 830-0584  
[www.abiea.org.pl](http://www.abiea.org.pl)
  
9. **Industrial Development Agency**  
**Agencja Rozwoju Przemysłu**  
 00-926 Warszawa, ul.Wspólna 4  
 Poland  
 Tel: (48-22) 621-6570  
 Fax: (48-22) 628-2363  
[www.arp.com.pl](http://www.arp.com.pl)

10. **Central Statistics Office (GUS)**  
**Główny Urząd Statystyczny**  
 00-608 Warszawa, Al. Niepodległości 208  
 Poland  
 Tel: (48-22) 608-3000  
 Fax: (48-22) 608-3863  
[www.stat.gov.pl](http://www.stat.gov.pl)

## 12 BUDMA - International Construction Fair

There are about 60 trade fairs that feature the building materials and construction industry sectors in Poland annually. In recent years they have drawn over 13,000 domestic and over 1,500 foreign exhibitors annually, attracting hundreds of thousands of visitors. Building materials manufacturers are increasingly interested in specialized fairs. Several such venues are now well established.

The International Construction Fair BUDMA is one of the most dynamically developing fairs organized by the Poznan International Fair (PIF). Since its inception in 1992 more exhibitors are continually being attracted and take more exhibition space every year. In addition, more and more professionals from the construction sector show their interest in the fair.

### Position on the market

The International Construction Fair BUDMA is at present one of the largest trade fair events organized in Poland. It is also the largest trade fair devoted to construction in Poland and one of the largest in Europe.

Considering the exhibition area, Budma is three times larger than any other construction fair in Poland, and with regard to the number of exhibitors and over two times larger. In Europe BUDMA takes 5<sup>th</sup> - 6<sup>th</sup> place.

### Scope of BUDMA

- building materials
- facades
- building chemicals
- metal products and fixings
- insulations
- floors, pavements
- ceilings and roofs
- glass
- building joinery and hardware
- gates



- interiors finishing elements
- internal communication
- ceramic tiles
- building services, consulting services, software

The program of BUDMA and INSTALACJA is not restricted to exhibitions of modern technology, materials, equipment and services.

The fairs will be accompanied by many specialist seminars, scientific and technical conferences and press conferences as well as presentations.

**Name of event:** BUDMA - International Construction Fair

**Place:** Poznan, Poland

**Dates:** Jan 15-18, 2001, organized annually.

**Organizer:** Poznan International Fair, ul. Glogowska, 14, 60-734 Poznan,  
tel: 48/61/869-2285 or 869-2384, fax: 48/61/866-0707,

**Contact:** Mr. Janusz Mazurczak, Team Manager

**The Canadian agent for the BUDMA and all fairs held in Poznan is:**

JC Exhibitions Inc.

14652 Quail Trail Circle, Orlando, FL 32837

Tel/fax: 407/857-6450

E-mail: jcexh@BTinternet.com

Contact: Mr. John Cash, President

Companies interested in participating should contact JC. Exhibitions to book space