

# Construction industry in view of COVID-19

## Impact of the pandemic on the construction and real estate sector\*

1. Stock quotes of both Polish construction and real estate businesses have responded relatively softly to the pandemic.
2. The stability of local construction and real estate operators is surprising, especially when compared to analogous foreign indices.
3. The soft response of the Polish construction and real estate indices may suggest that real estate prices in the domestic market will continue to rise.

\* Construction businesses - WIG-BUDOW housing developers.

Real estate businesses - WIG-NRCHOM development project investors and managers.

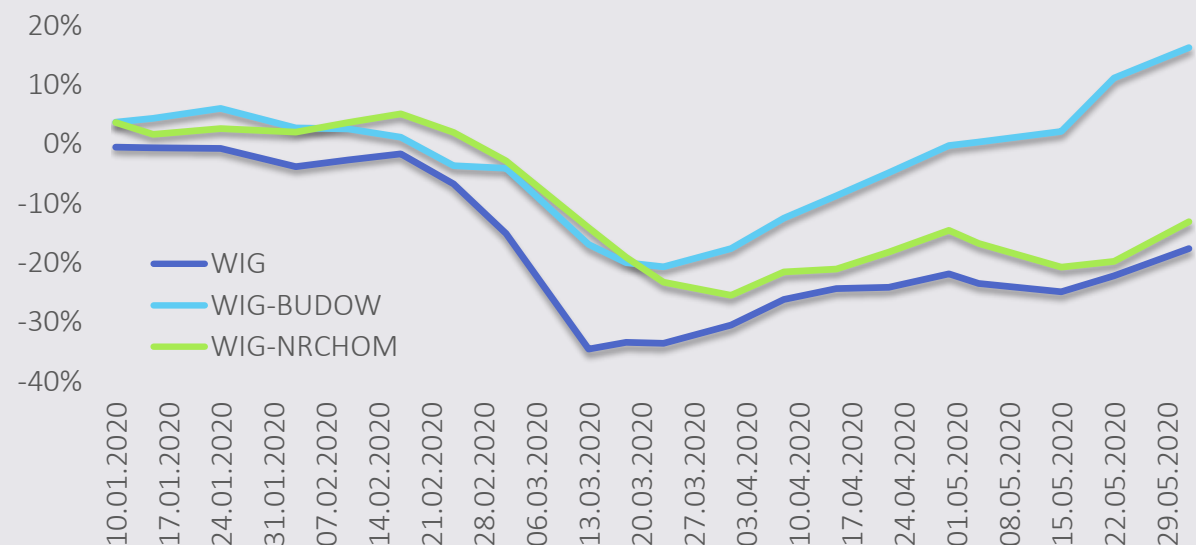
# Construction and real estate sector in Poland

The Polish construction and real estate sector has responded extremely softly to the pandemic.

The largest decline (21-26%) in both sector indices was recorded in late March. This can be considered positive compared to the WIG falling by as much as 34% in the same period. The recovery rate is different for both segments of the industry.

The index of **real estate** businesses – similarly to the primary index – has been recovering systematically, but quite slowly: on 1 June, the decrease was 13%, compared to January.

However, the index of **construction** businesses has been dynamically growing, with its value at the beginning of May exceeding the value from the beginning of the year, and recording an increase of 16% on 1 June.





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Investors are extremely positive about the situation of Polish construction and real estate.

This positive sentiment is particularly strong among construction businesses, which can be explained by the long-term perspective of implemented projects. Restrictions due to the pandemic have more severely affected real estate businesses, with their financial performance largely depending on the number of properties sold, whose value has abruptly dropped due to a sudden increase in bank credit policy restrictions.

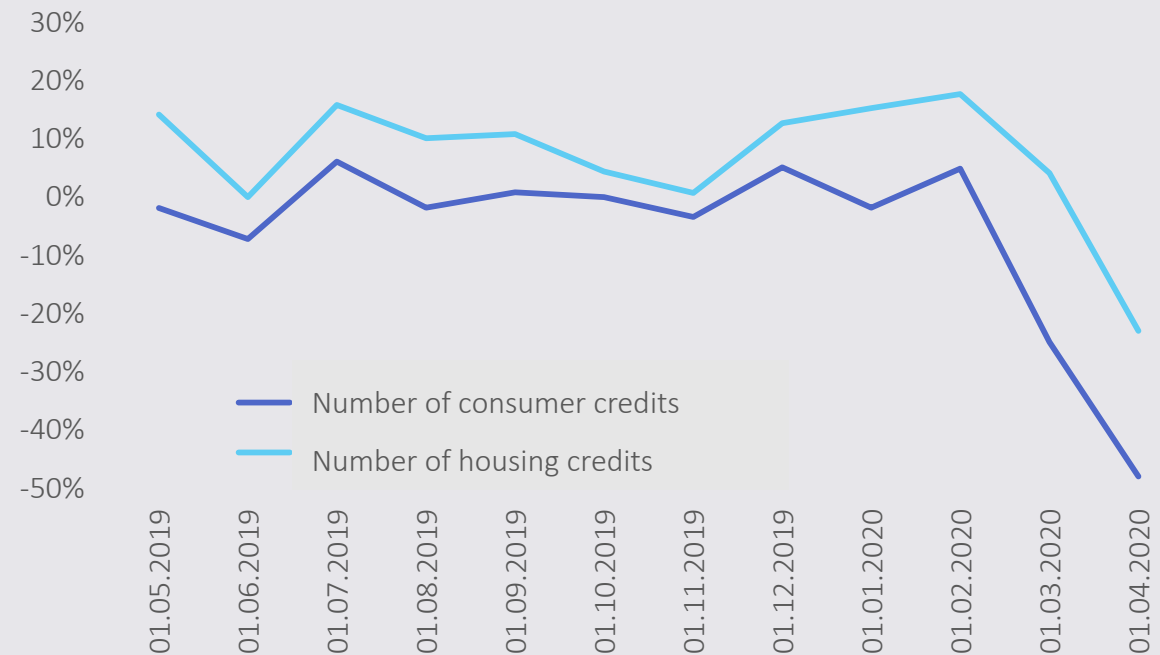
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# Housing market dynamics

We are currently observing a dramatic **drop in the number of mortgages granted**, compared to 2019. There are two key reasons for this:

- abrupt introduction of credit policy restrictions by all banks operating in Poland;
- stronger reluctance of borrowers to incur financial liabilities.

The level of real estate prices in the months to come will depend, *inter alia*, on the factors above, in particular on the rate bank credit policy restrictions are relaxed. The continuing crisis in the banking sector suggests that banks may relatively soon make their approach more flexible.



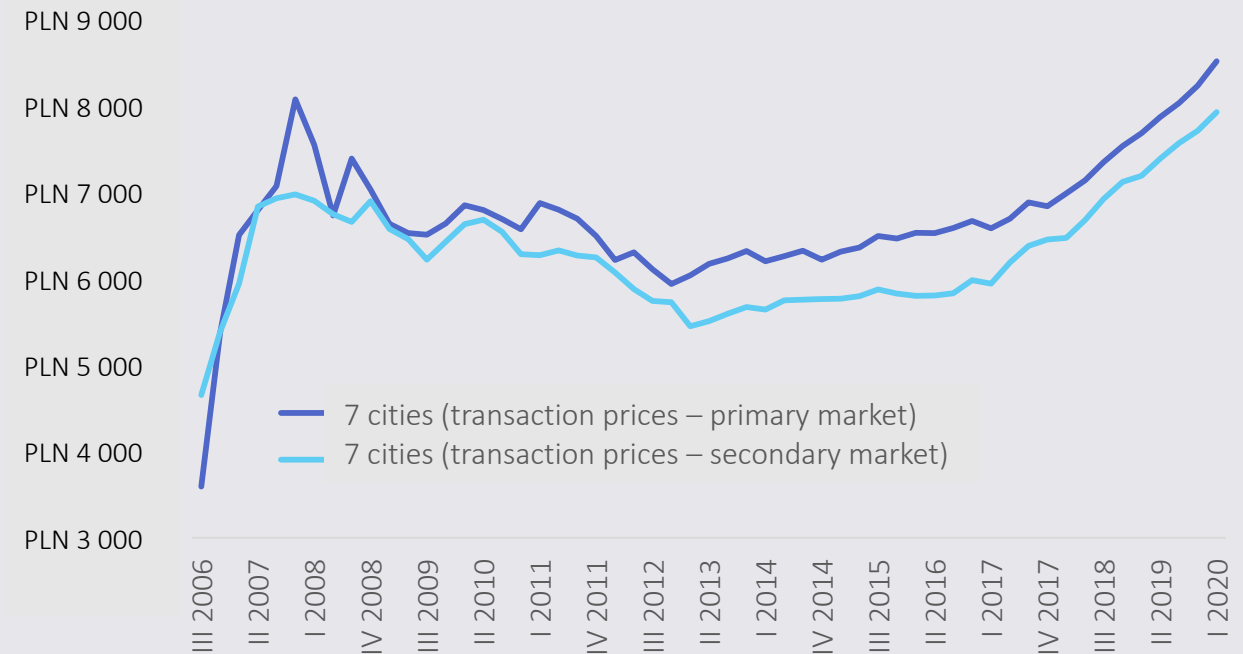
# Housing market dynamics

An analysis of housing transaction prices in the primary and secondary market indicates that the pre-crisis (2008) level has been reached relatively recently.

Taking inflation into account, it turns out that housing prices in April 2020 were ca. 17% lower than in the record-breaking year of 2007\*.

It can therefore be assumed that the upward trend in real estate prices will continue.

*\*Source: Morizon*





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In the face of Covid-19, the Polish construction and real estate market remains relatively stable.

It is interesting what the effect will be of a collision between the long-term upward trend in the real estate market and the sharp April decline in the number of mortgages granted. In the long run, the market will be shaped based, *inter alia*, on the bank credit policy applied. If maintained, heavy bank restrictions may contribute to a deterioration of the financial performance of construction and real estate businesses, causing a reduction in the demand for real estate.

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# Potential reasons for the stability of the construction and real estate sector in Poland

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The construction and real estate industry reacts to economic slowdowns with a noticeable delay due to the **long-term perspective of implemented projects**. Therefore, a comprehensive analysis of the sector's response to the pandemic will be possible in a few years.

One factor positively influencing the value of Polish construction and real estate businesses is their **local area of operation**. The closing of borders has had a negative impact primarily on large-scale international projects usually implemented by large foreign companies. In this way, the local scope of projects carried out by

Polish businesses has slowed their value decline.

Therefore, the pandemic should not strongly affect the Polish construction and real estate sector. Thus, no major changes in the upward trend in real estate prices should be expected in the long run.

# International context – USA

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The construction and real estate sectors in individual countries respond differently to the pandemic.

An analysis of U.S. stock indices reveals a strong dependence of the construction and real estate sector on the industrial situation measured by the Dow Jones Industrial Average index.

These indices reached the lowest levels in late March, recording declines of 36-39%, compared to the beginning of the year.

The recovery rate is also not satisfactory. By 1 June, the indices returned to a level of 13-15% below the January value.

Despite this, sentiment in the U.S. market allows us to be optimistic about the observed developments. The number of rental offers in the local housing market has been increasing, with real estate prices slowly approaching their pre-pandemic level.

Analysts expect the U.S. construction sector to develop by 2024 at a rate of 5% per year.

# International context – Germany

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The situation looks different in the German market where two trends can be seen:

- **real estate** businesses have responded better than the DAX primary index;
- **construction** businesses have responded worse than the DAX primary index.

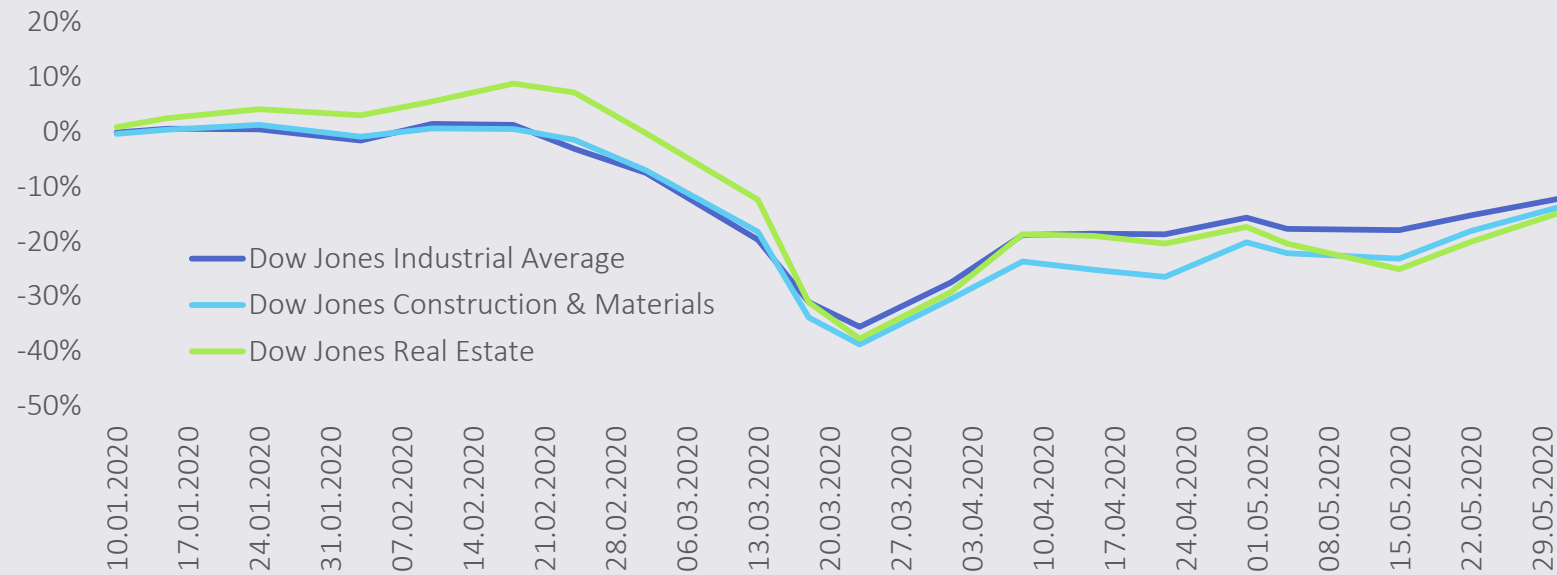
The largest decline was recorded in mid-March, with the primary index falling by 37%.

At that time:

- the index of **real estate** businesses fell by 29%;
- the index of **construction** businesses fell by as much as 53%.

By 1 June, the DAX index had recovered to -10%. In the same period, the index of construction businesses was 26% lower than at the beginning of the year, while the real estate index recorded a slight loss of 4%.

The soft response of the German real estate market contributes to its further strengthening. During the pandemic, real estate prices in Q1 2020 increased by 3.78%. The continuing strong demand for real estate, fuelled by low interest rates, means that the local construction sector has also been recording a gradual increase, i.e. 1% in 2019 and 1.6% YOY in Q1 2020.





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“The construction and real estate market – like many other industries – has been severely affected by the global pandemic.

Covid-19 most severely affected the construction and real estate businesses in export-oriented economies, due to the closing of borders by most countries. The long-term perspective of contracts concluded in this sector, however, suggests that the businesses will return to normal operation and projects initiated will only be slightly delayed after the restrictions are lifted.

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