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Hungary, Poland and Estonia – Comparison of industrial transition models: construction sector



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The mission of Tallinn University of Technology is to support Estonia's sustainable development through scientific creation and science-based higher education in the field of engineering, technology, natural and social sciences.

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construction sector in Estonia...

- **has shown strong growth over several years**
- **the development of new commercial estates, shopping centres, housing and major infrastructure development projects offer good opportunities for suppliers of materials, technologies and knowhow**
- **there is a lot of scope for urban regeneration projects**

UK Trade & Investment 2008 report

Estonia: Housing Boom Appears Unstoppable!



...prices of city centre apartments jumped 30% in 2005, and in the some parts of Tallinn by as much as 55%

“Demand is so strong, that even old flats in Soviet-era prefabricated concrete panel block buildings should increase in the future”

Global Property Guide, 2006 [www]



prices for houses in Estonia showed constant growth in 2006

all signals point to continuing housing market vitality...

- **prices for houses are rising more strongly than ever**
- **2005 saw a quantum leap in housing market activity, with a 30% volume increase**
- **demand for housing far exceeds supply**
- **the mortgage market is expanding at breakneck speed**
- **2005 4.qtr saw 10.5% GDP growth, with an annual GDP growth rate of 6.5%**
- **interest rates continue to fall**
- **the country's entry into the EU in 2004 increased confidence**

[picked up from different sources]

construction market of Estonia



- **years 1991 – 1995**
 - **total stagnation in the market:**
 - **organising the framework**
- **years 1995 – 2000**
 - **institutionalising the sector:**
 - **increase of amounts, new technologies**
- **years 2000 – today**
 - **rapid development:**
 - **concurring local and international markets**

years 1991 – 1995



- **starting up the new state**
 - currency reform of 1992
 - property ownership act (1993) – asjaõigusseadus
- **organising the sector**
 - Estonian Association of Construction Entrepreneurs (1991)
 - Estonian Association of Architectural & Consulting Engineering Companies (1994)
 - Association of Construction Material Producers of Estonia (1993)
- **stagnation of the market for investments**
 - materials and technologies are fully imported
 - banks are financing only huge projects
 - corrupted public and not experienced private sectors
 - lack of students for construction studies
- **strong Finnish know-how influence**
 - on construction management
 - on property ownership business (management and maintenance)

years 1995 – 2000



- **Planning and Construction Act (1995)**
 - principles to institutionalise the sector
- **privatisation and restitution boom**
 - housing stock (up to 96%)
 - business properties
- **updating of the legislative system**
 - principles for entrepreneurship were updated
 - number of acts for construction and maintenance of buildings were introduced
- **construction market started to recover**
 - limited funding for the projects
 - starting up developing new housing estates
 - shadow market – salaries in ‘envelopes’

years 2000 – today



- **preparations to join EU in 2004**
 - renewing the legislation
 - new construction and planning acts (since 2003)
- **money is becoming ‘cheaper’**
 - reasonable increase of investments into built environment
- **households invest into properties**
 - new flats
 - reconstruction boom of condominiums
- **new businesses require high-quality spaces**
- **more EU funding became available for infrastructure and environmental projects**

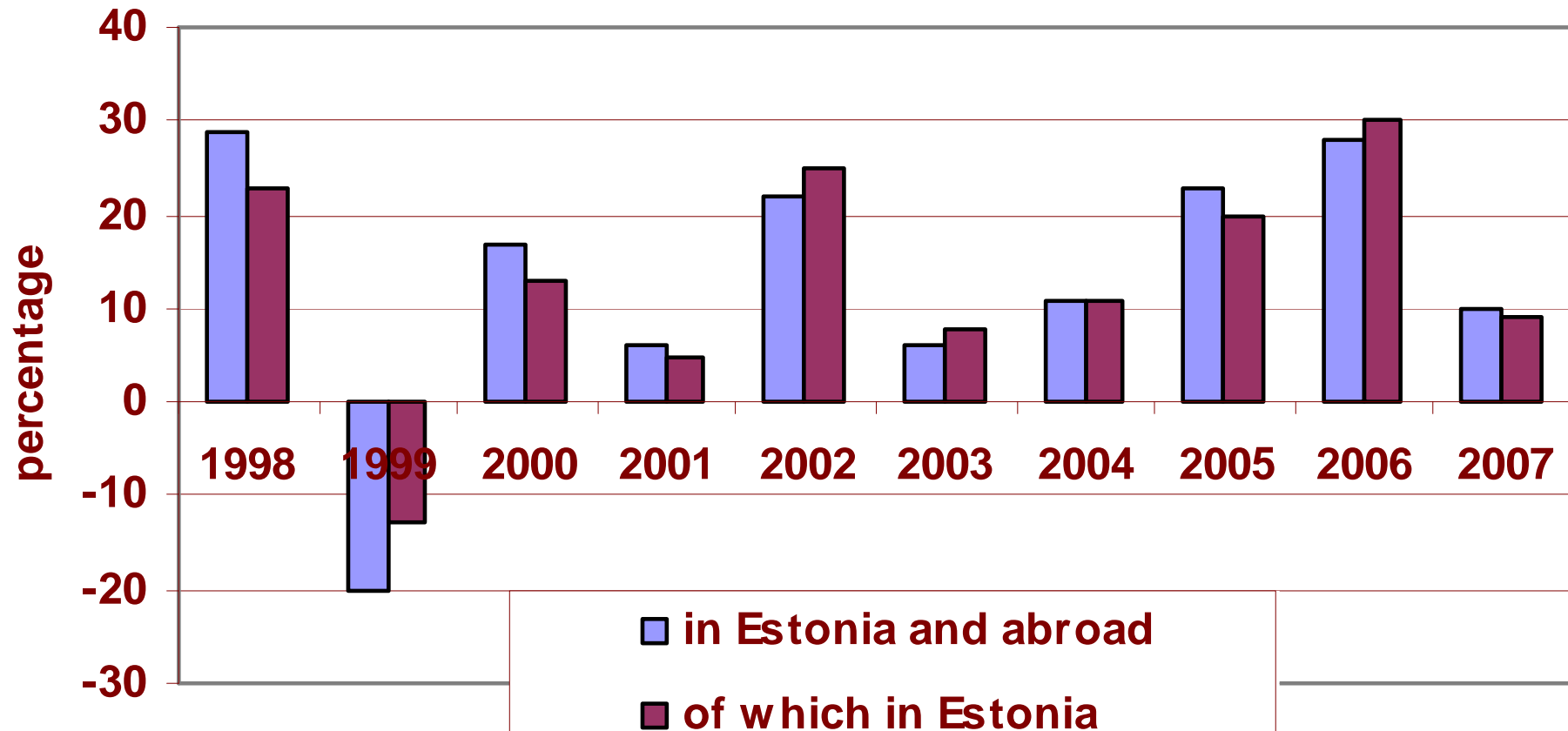
in detail about 2000+



- **[Estonian] construction accounted for 8 percent of GDP in 2006 (data by ESO)**
- **some 5,600 enterprises were engaged in the building business and the sector employed 48,000 people**

**Embassy of the People's Republic of China in
Estonia**

dynamics of construction volume (compared to previous year)





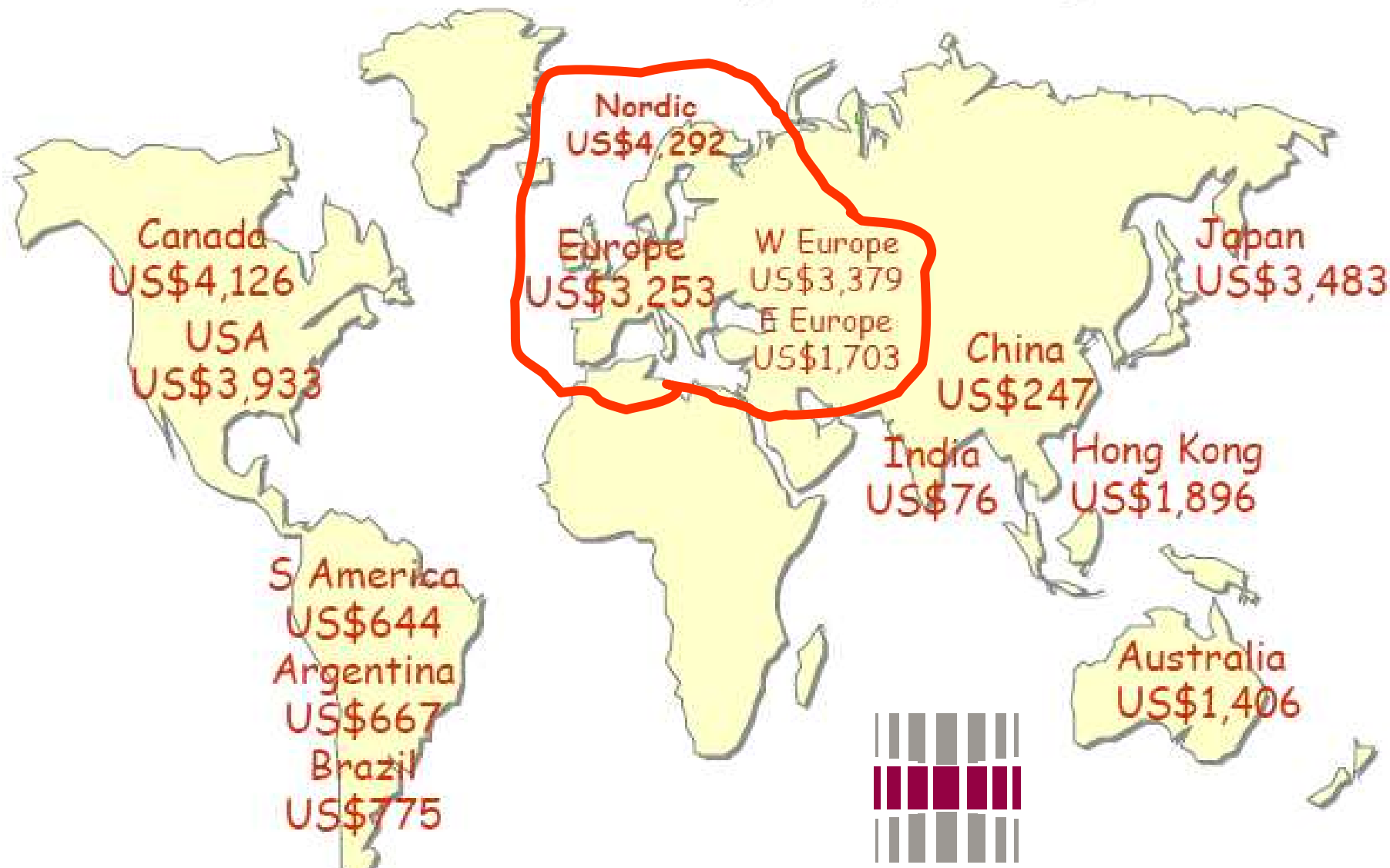
Where Estonia goes



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Global construction output per capita 2005



source: Roger Flanagan

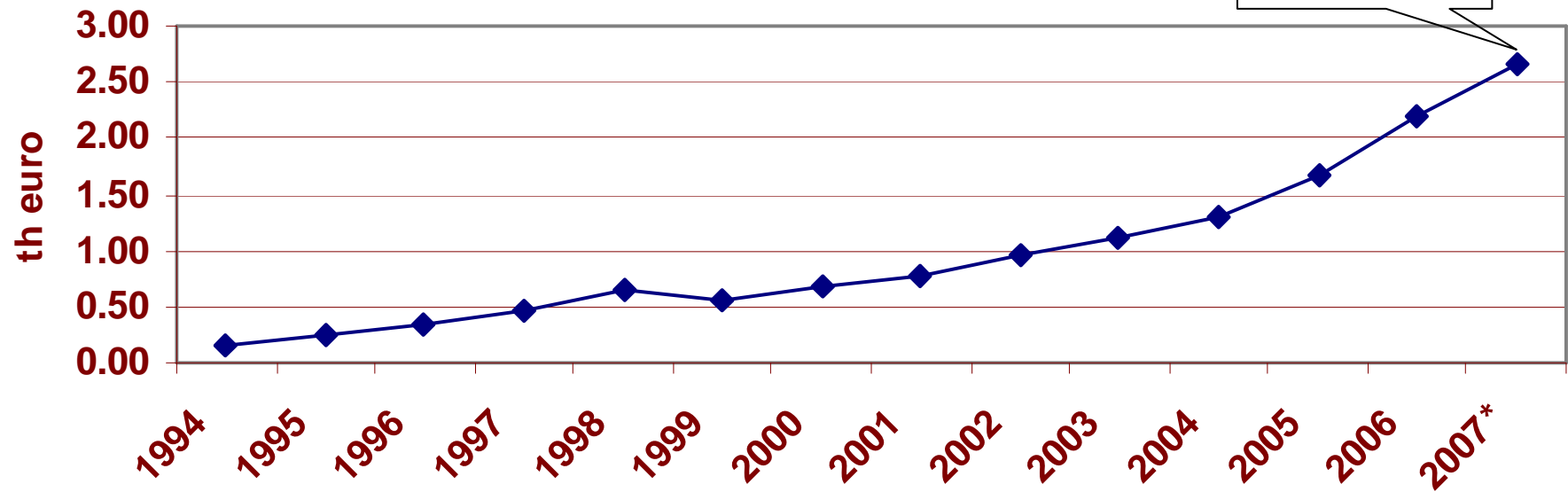


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construction works per capita in Estonia

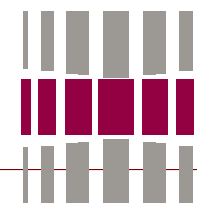


entrepreneurship in construction

number of companies in the sector

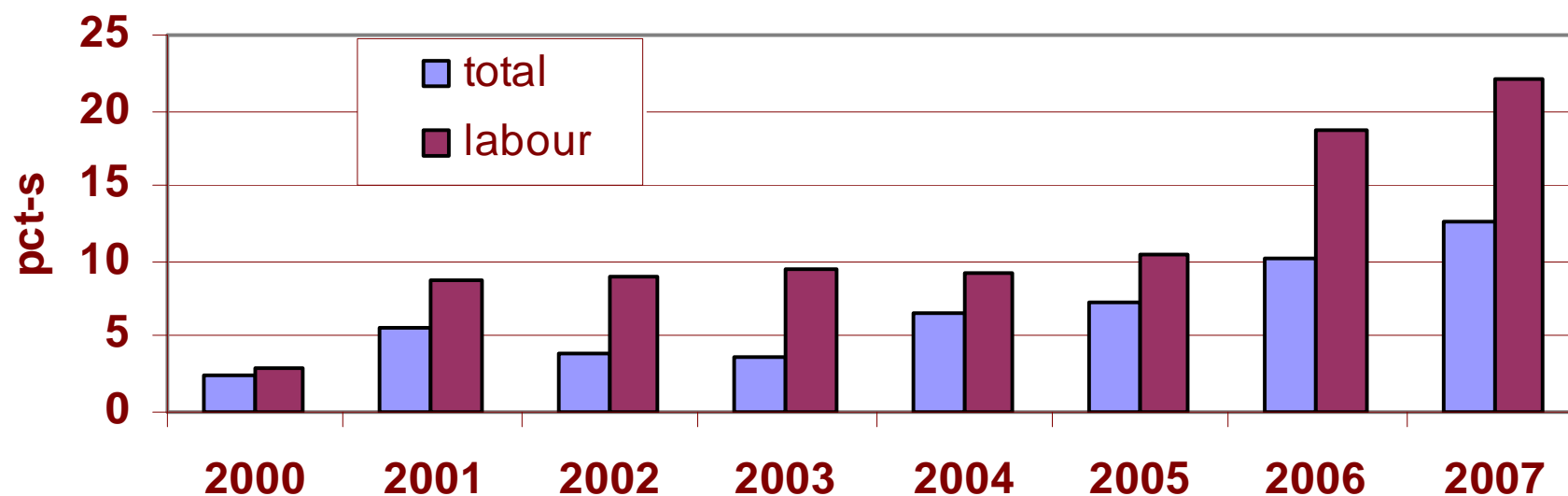
April 14, 2008

field of activity		active	listed
railway-construction		32	37
construction		4621	6026
designing	TTÜ 1918	2390	2884
owner's supervision		2690	3428
construction surveying and geological works		356	429
expertise of structures		413	482
construction management		2536	3305
expertise of design documents		358	397
expertise of documents and structures		856	1098
	total	6036	7640



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construction price index (compared to previous year)



national construction market started to slow down during 2007

- **demand for new dwellings has decreased**
- **increasing of interest rates for settlement loans**
- **rapid growth of construction prices**



- **The Confederation of Finnish Industries estimates that around 5,000 Estonian construction workers are employed on Finnish construction sites.**
 - Most of them are sent by an Estonian employer.
 - Less than ten percent are directly employed by a Finnish company.
- **Estonia is already suffering from a chronic labour shortage.**
 - With the free movement of labour a substantial portion of the working-age population is set to disappear overseas.
 - At the same time the large age cohorts are approaching retirement age.

Helsingin Sanomat

some data about staff

- in construction companies ca 38% of staff have no professional education**
- in construction sector the number of staff employed**
 - in 2004 34.000**
 - in 2006 42.000**
 - in 2007 70.000**
- 83% of design companies have lack of qualified engineers**

constraints for construction entrepreneurs (in percents)



	sept 2006	sept 2007	nov 2007
lack of labour	70	42	31
nothing (no problems!)	11	14	18
lack of machinery and materials	13	0	0
lack of demand	3	24	31
weather-conditions	3	14	17
financial problems	0	2	1

findings - conclusions



- **legal framework**
 - reasonable legislation is available
 - reliable conditions for contracting are available
- **institutional framework**
 - professional associations are respectable
- **technological/technical framework**
 - rapid technological change has become possible
 - materials
 - machinery
 - availability of harmonised standards



findings - conclusions



- **shortage of skilled staff**
 - labour immigration – income possibilities
 - engineering staff – academic constraints
 - insufficient administrative capacity
- **tiny market**
 - no sufficient competition for projects
 - insufficient quality for common projects
 - shortage of skilled labour
- **tiny investments to R&D**
 - especially for construction sector
- **low imago of the sector in media**
- **hyper-polarisation of the market in and around Tallinn**



• thank you for your attention

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