

One of Europe's hottest markets

Building products and construction in Ukraine

The rising demand for residential housing in Ukraine combined with many new infrastructure developments presents opportunities for Canadian suppliers of construction and building materials. Ukraine's local construction sector was valued at approximately US\$2.6 billion in 2001, accounting for 4.7% of the country's GDP.

Market overview

Construction — The construction sector output (commercial and residential) exhibited estimated growth rates of 4%, 1.9%, 5.5%, and 8.8% for the years 1998, 1999, 2000, and 2001, respectively. This upward trend in output has been driven largely by the construction and renovation of private, single-family dwellings. In 2001, US\$717 million was spent on residential construction throughout Ukraine — some 5.8 million square metres — 59% of which were built by private companies.

In 2000, the market for general construction work (individual, non-contracted) was estimated at US\$2.8 billion; the contractors' market, at US\$2.4 billion; and the renovation market for residential property generated approximately US\$900 million in annual sales. The value of the building materials market reached an estimated US\$0.7 billion. (The "shadow" construction industry can add 40-60% to the figures.)

Only 14 million individual residential units are available for Ukraine's population of 49 million people; there is an urgent need for 5 million new units, either apartments or single-family dwellings. This demand is mostly concentrated around Ukraine's larger cities, such as Kyiv (population 2.8 million), Kharkiv (pop. 1.5 million), Dnipropetrovsk (pop. 1.5 million), Donetsk (pop. 1.1 mil-

lion), Odesa (pop. 1 million) and Lviv (pop. 800,000). In Kyiv alone, one million square metres of new housing are needed now.

Building materials — Although new projects in private residential and office construction offer significant opportunities for suppliers, renovation is the most prevalent undertaking in Ukraine. This is largely due to the aging housing stock, and the general poor quality, layout and energy-efficiency of most Soviet-era housing. This has caused a surge in demand for affordable building materials, with high-quality materials becoming popular as well.

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Building materials alone can account for up to two-thirds of the cost of a general construction project. With the decline in domestic production, most of the building materials used in renovations are now imported, which offers great potential for Canadian suppliers.

Opportunities

Construction — Most of Ukraine's now-deteriorating housing stock was mass-produced between 1955 and 1965. Government funding was largely unavailable for renovations in the past, but now homeowners are investing in upgrades to their houses.

Energy-conservation is becoming an important issue for customers, and is dictating their preference in building materials. But local tradition continues to make brick, not wood-frame, the basic construction material. Canadian companies are therefore advised to promote the convenience, energy-efficiency, cost effectiveness and comfort of their products.

The rising acceptance of luxury apartment buildings and condominiums may

interest Canadian builders. Medium-density developments with 80-100 m² apartments equipped with fine-quality finishes are becoming more popular.

Retail space is being upgraded to European standards throughout Ukraine, with new and expanded shopping malls emerging almost every month in the larger cities. Kyiv is building a large ultra-modern underground shopping mall and leisure centre, and underground plazas with multi-storey underground and above-ground parking lots and multiplexes are expected to be the next boom.

Recognizing the advantage of using the existing utilities infrastructure, Ukrainians prefer to upgrade deteriorating or unfinished structures using Western construction technology. Recently introduced tax benefits also encourage this practice. Across Ukraine there are some 200,000 uncompleted construction projects.

Building materials — The following products may present Canada with lucrative opportunities:

- affordable, high-quality pipes, fittings;
- insulated windows and doors;
- floor and wall tiles;
- decorative security window grating;
- dry powder building blends;
- prefabricated buildings;
- energy-efficient building products;
- DIY products;
- security and safety equipment;
- HVAC equipment.

Canadian companies should note that order sizes may be small.

Market access considerations

Canadian exporters should consider the following five major issues before entering the Ukraine market.

- 1) Market development and entry costs are generally high, making it necessary to plan a long-term strategy.
- 2) Given the rising cost of building materials, the Ukrainian market is open to competitively priced products.
- 3) There is little transparency in the business, legal and regulatory environments. Ukrainian laws and regulations

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opportunities

Biggest opportunities for Canadian companies in Portugal are in the rental housing market: prefabricated wood-frame housing systems; innovative windows with high insulation value; Portuguese-style roofing and siding materials; insulation; concrete-based wall systems and forms; self-frame construction.

Market access considerations

Public works — Given that the Portuguese market is small, a non-EU company without a strong local or European partner will find it difficult to obtain public works contracts. Canadian companies may, however, find many opportunities as sub-contractors.

Perseverance — As in other European countries, certain construction methods undergo a costly, time-consuming approval process with the official agencies in Portugal [LNEC]. Perseverance, however, is usually rewarded.

Market competition

Wood-frame technology is entering the market from U.S. companies, but major competition also arises from companies in Portugal and from other EU countries, especially Spain.

For detailed market reports about this market, visit www.infoexport.gc.ca

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