

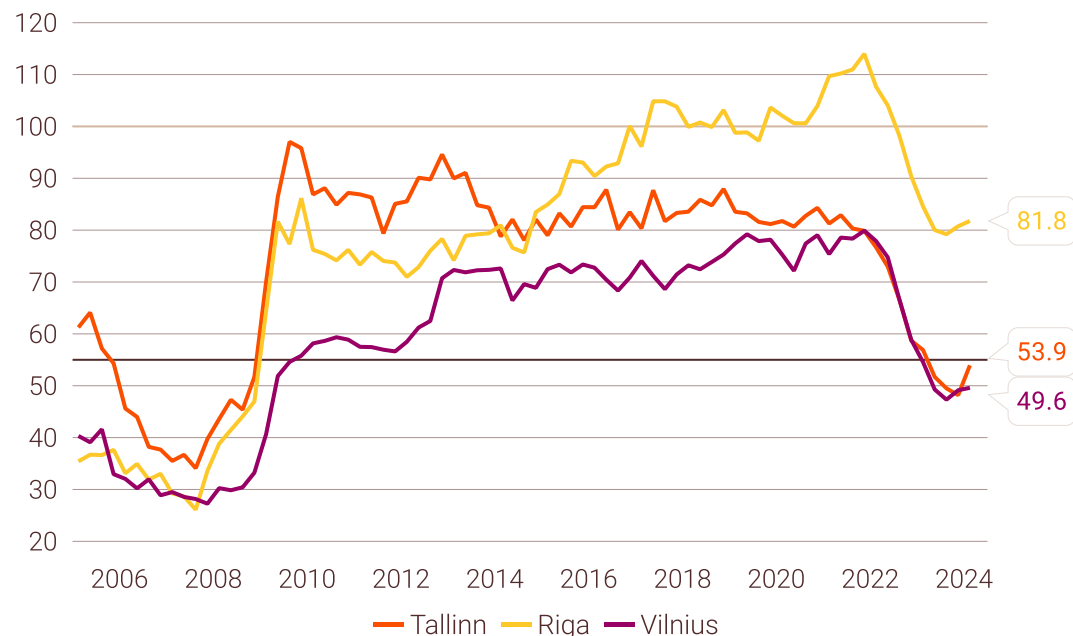
Baltic Housing Affordability: 2024 Q1

Housing affordability has started to improve, but the recovery won't be quick.

- Housing affordability improved in all Baltic capitals.
- ECB interest rate cuts now are less than a month away.

Baltic Housing Affordability*

Size of an apartment that an average household can afford to purchase with a mortgage, m²



* Last quarter's value is preliminary and subject to change.

Sources: Swedbank Research & Macrobond

Example: 49.6 m² represents the apartment size that an average household can afford in a capital city, based on 1.5 times the average net monthly wage, the quarterly average apartment price, and the interest rate for new loans.

Housing affordability continued increasing in Riga and Vilnius, and it started to increase in Tallinn as well, leaving behind the lowest point in affordability in 2023. Nevertheless, there is a long road of recovery ahead. Most notably – affordability in the primary market is still particularly low, leaving this segment to high earners.

Market activity remained subdued at rather low levels in Tallinn and Vilnius, whereas it continued to decline in Riga. Consumer confidence in the first quarter kept on growing and was very strong in Lithuania, while it inched closer to its long-term average in Latvia. In Estonia, although household confidence showed some signs of improvement in April, it remains very weak.

More good news is that in less than a month the European Central Bank (ECB) is expected to start lowering its interest rates. While the rate cuts will be gradual (four cuts this year at 25 basis points each), this should still boost buyer confidence. The sustained wage growth and declining interest rates will speed up the recovery of housing affordability in the coming quarters.

Analysts:

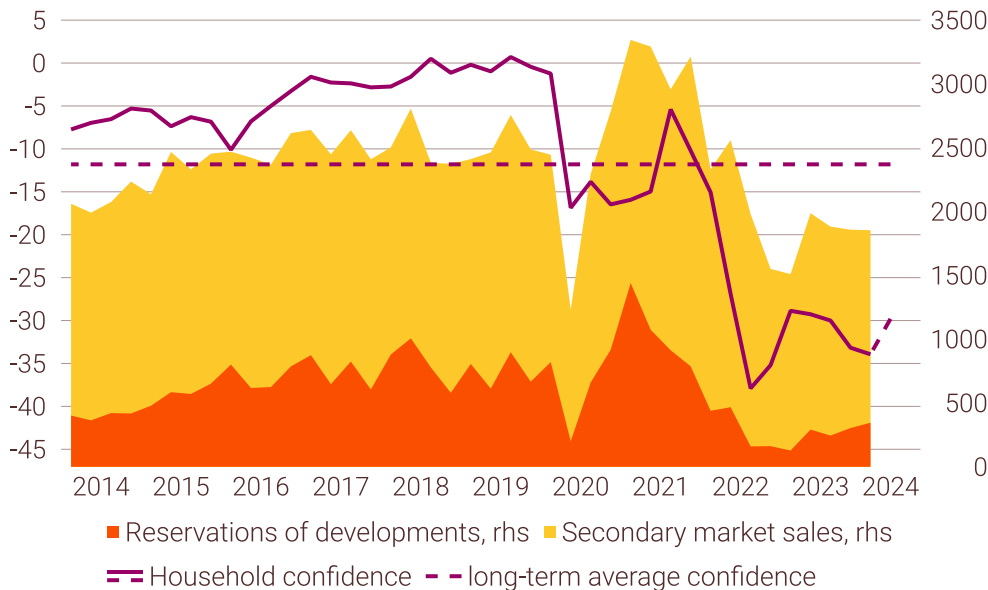
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Tallinn – household confidence should improve this year

Housing affordability will soon start to improve more notably, but full recovery is yet distant.

Household confidence and Tallinn market activity

Index (lhs); number of apartments (rhs)

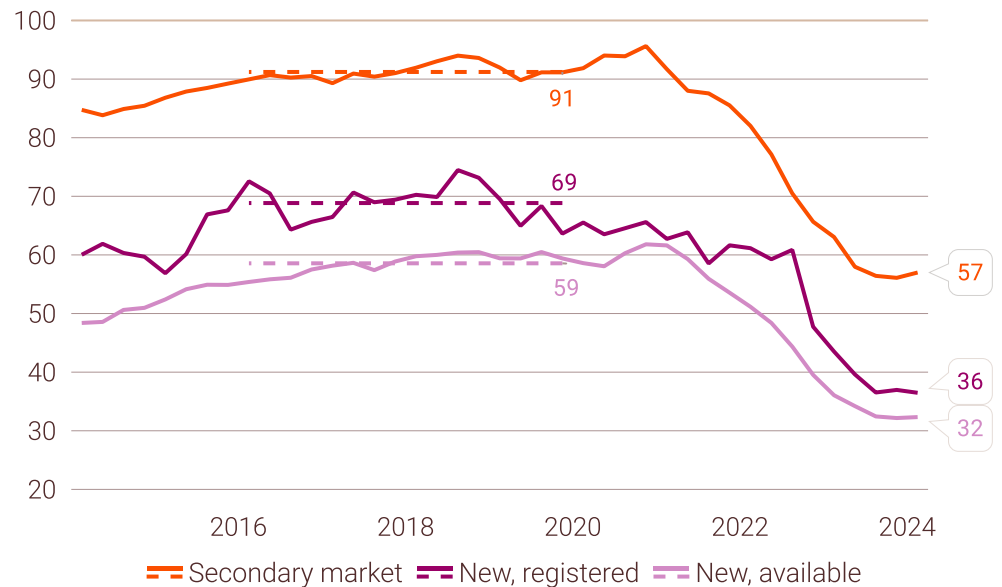


Sources: Swedbank Research & Macrobond
 Note: In Q2 2024 confidence indicator for April

- Household confidence remained weak, and this was reflected in still-depressed market activity in the first quarter. A prolonged recession has made people worry about possible job losses and their future financial situation. Tax increases and government plans to introduce new taxes have added to these fears. However, the labour market remains strong, and unemployment has risen less than expected. Inflation is coming down, and purchasing power, although not fully recovered yet, has improved. This, together with the start of rate cuts, should improve household confidence. The first signs were already visible in April sentiment data.
- The secondary market apartment price appreciated by about 5% from a year ago, while new developments offered for sale gained almost 6% over the year.

Housing affordability

SA, size of an apartment that an average household can afford to purchase with mortgage, m2



Sources: Swedbank Research & Macrobond

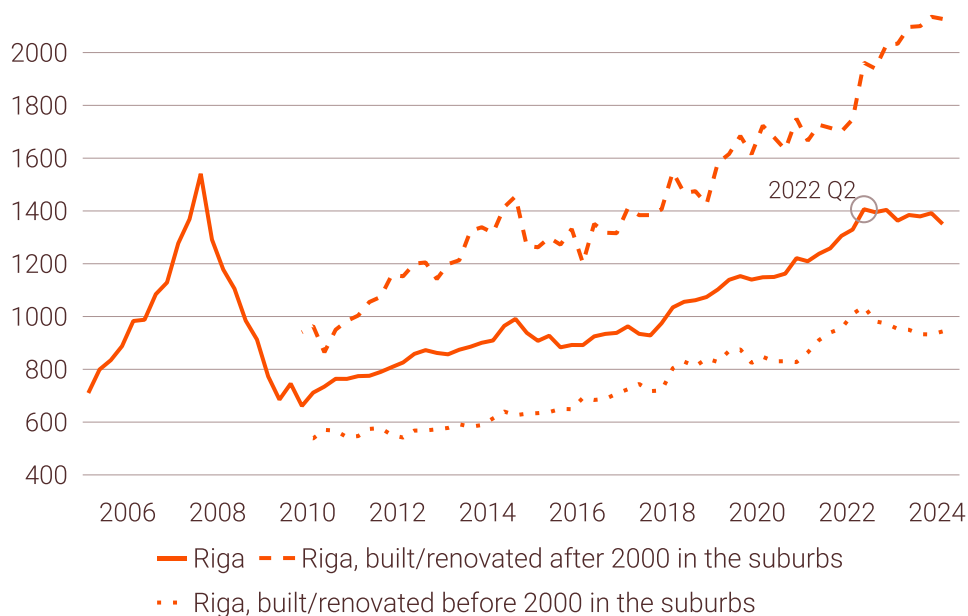
- Housing affordability slightly improved in the secondary market in the first quarter; meanwhile, the primary market saw almost no improvement as price gains offset the positive impact of a somewhat lower Euribor. With 32 m² affordable for the average household, new developments are currently favouring high earners.
- Wage growth will slow this year yet remain at a strong 7% rate and outpace apartment price growth. The price-to-wage ratio will continue to improve. A more notable improvement in housing affordability is right around the corner, as the ECB rate-cutting cycle is about to start in early June. However, housing affordability will not soon reach the average level of affordability seen in 2016–2019.

Riga – housing affordability continued to recover

Still the most affordable in the Baltics due to the larger share of older and cheaper apartments.

Average apartment transaction price

EUR/m²

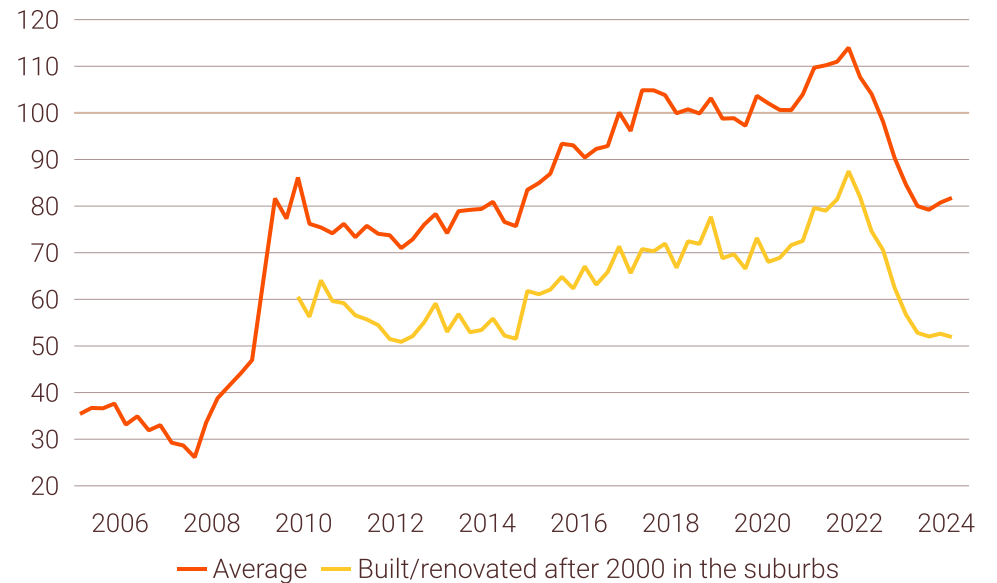


Sources: Swedbank Research & Macrobond

- Slowing yet still rapid wage growth, paired with slightly lower average apartment prices, helped to increase for the second quarter in a row the size of the apartment that the average household could afford. Interest rates for new loans proved to be rather sticky and remained the highest in the Baltics.
- Market activity slowed even more, in both quarter-on-quarter and year-on-year terms. The situation in the primary market was dire. The average monthly transaction count fell by nearly 40% year on year in the first quarter, whereas reservations in the economic segment are down by about 60% (nearly 25% down in the premium segment). The stock of unsold apartments continued to rise.

Housing affordability in Riga

Size of an apartment that an average household can afford to purchase with a mortgage, m²



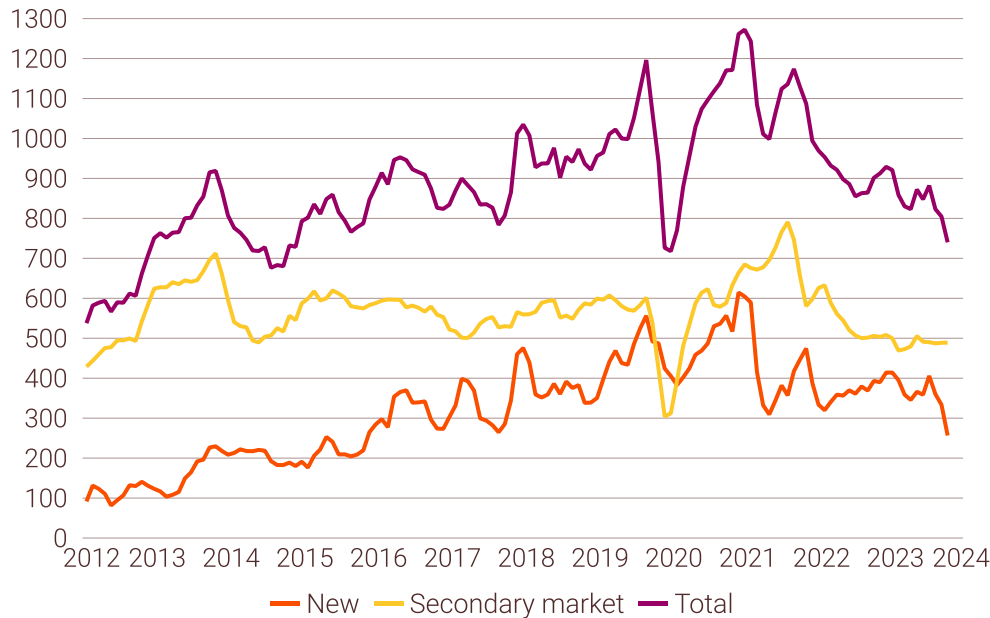
Sources: Swedbank Research & Macrobond

- Deterred by high prices in the primary market, buyers often opt for the second-best option, i.e., non-Soviet-era apartments in the secondary market. However, prices in this segment have been steadily rising since the fourth quarter, and the supply of such apartments declining. Altogether, the notable price difference between newer and older apartments translates into a significant difference in the size that the average household can afford in each segment.
- The good news is that wage growth will continue to outpace inflation and housing price growth this year. ECB interest rate reductions, which both potential buyers and real estate developers are eagerly awaiting, are less than a month away.

Vilnius – inactive and expensive market

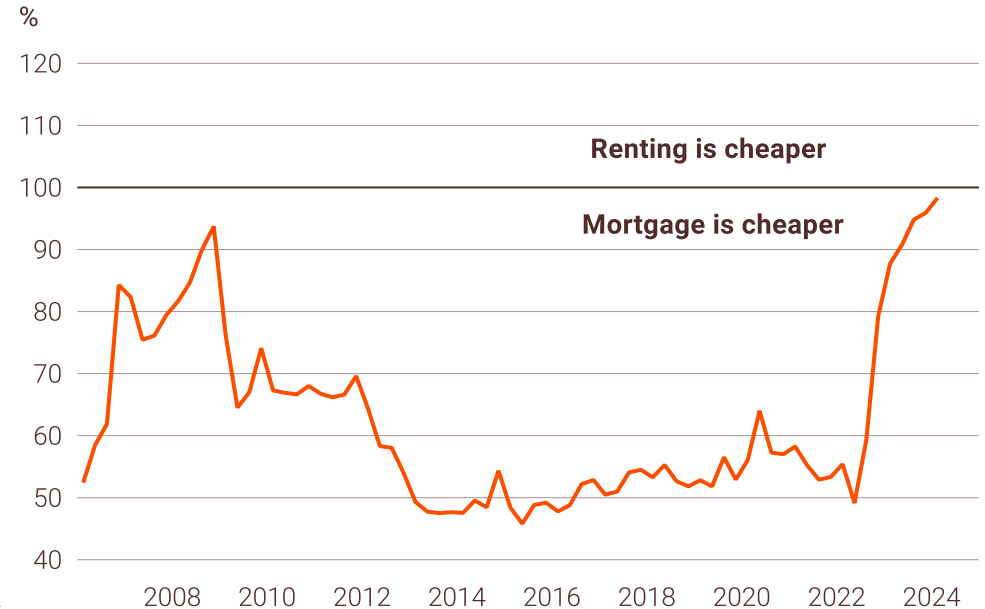
Prices inched higher, and buying an apartment is looking less attractive than to renting.

Officially registered apartment sales in Vilnius
sa, 3m ma



Sources: Swedbank Research & Macrobond

Relative attractiveness of renting and buying



Sources: Swedbank Research, Aruodas & Macrobond

Ratio is calculated comparing the average mortgage payment for 55 sq.m. apartment versus average rent price for the same sized apartment

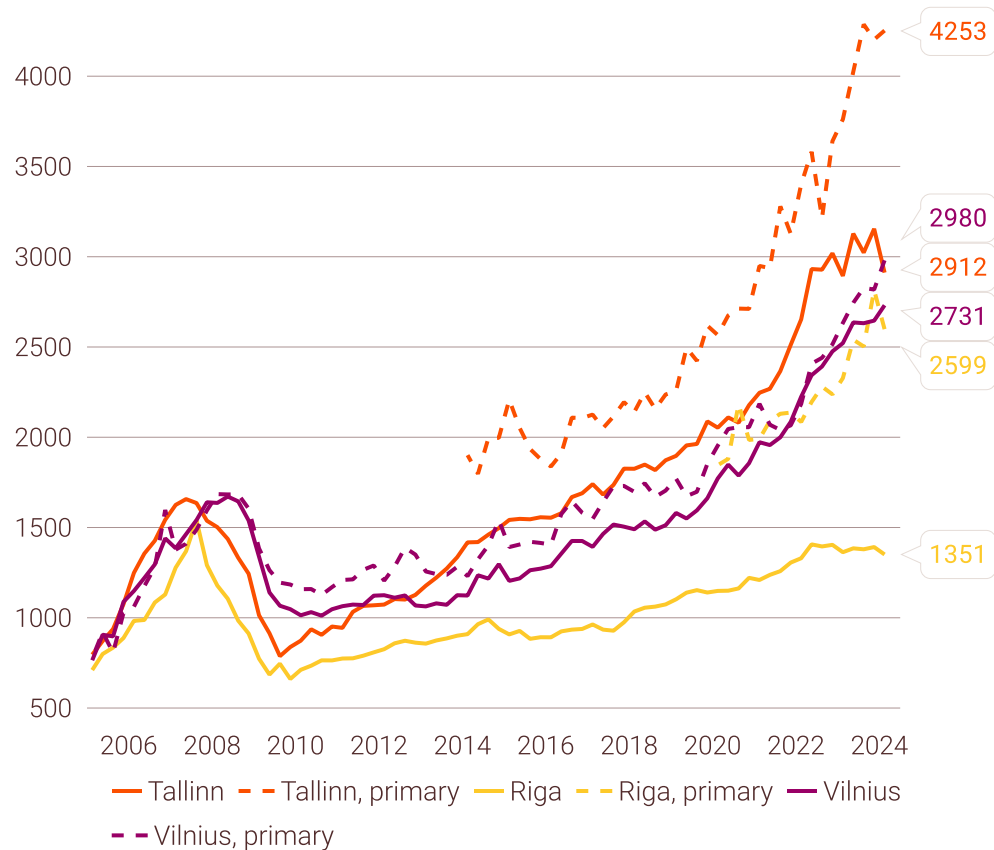
- Market activity was still low in Vilnius. Secondary market sales were stable at a low level, while primary market registrations fell to the lowest level in over five years. Primary market reservations bounced back somewhat at the end of the first quarter, but activity is likely to remain muted for a while.
- Prices inched higher in the first quarter – the official registry shows annual price growth of 8.3%; the repeat sales price index and online postings also show a slight acceleration to 5.8% in the first quarter. Due to low sales, the market structure is shifting a bit, and this might be contributing to a rather unexpected appreciation.
- Housing affordability improved marginally, and buyers in Vilnius could afford to buy a 49.5 sq. m.-sized apartment. Solid wage growth and slightly lower mortgage rates helped affordability a bit, but improvement was blunted by rising prices.
- Overall, the market is in a kind of Mexican stand-off. Stocks of unsold apartments are gradually rising, volumes of sales are small due to high rates, and no one is willing to lower prices in hopes that lower rates will spur activity in the second half of the year.

Appendix

Wages outpaced apartment price growth in the Baltics.

Average apartment price

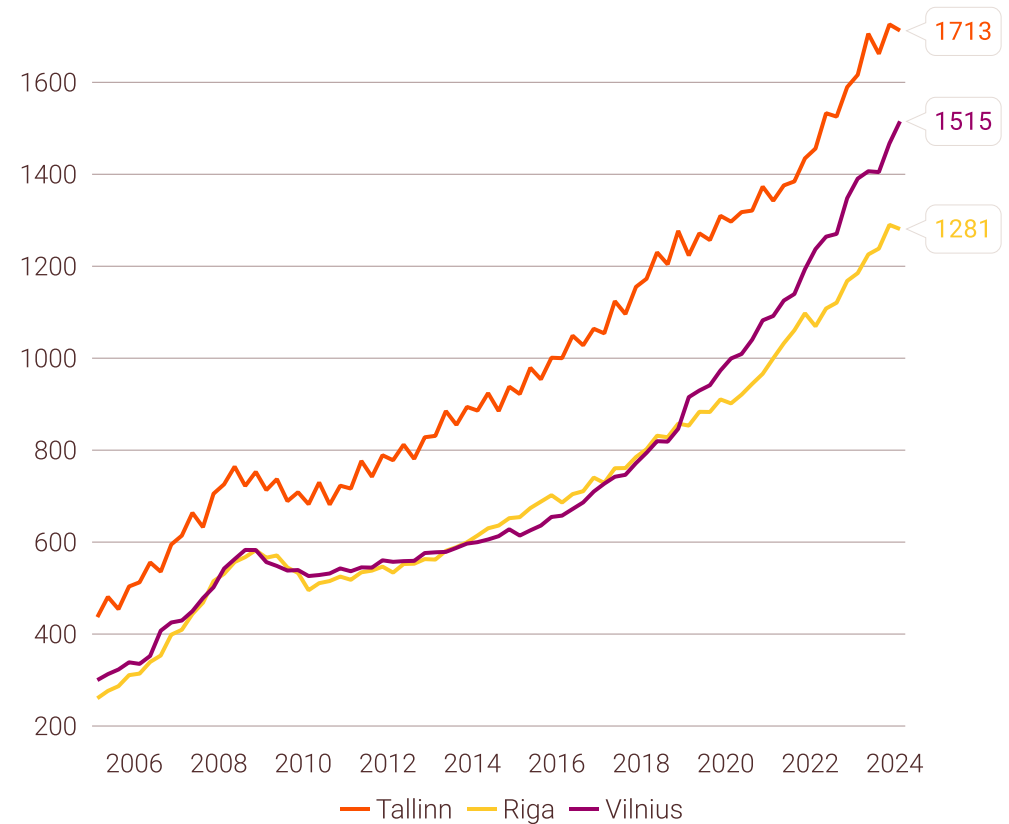
EUR/m²



Sources: Swedbank Research & Macrobond

Average monthly net wage*

EUR



* An estimate for Q1

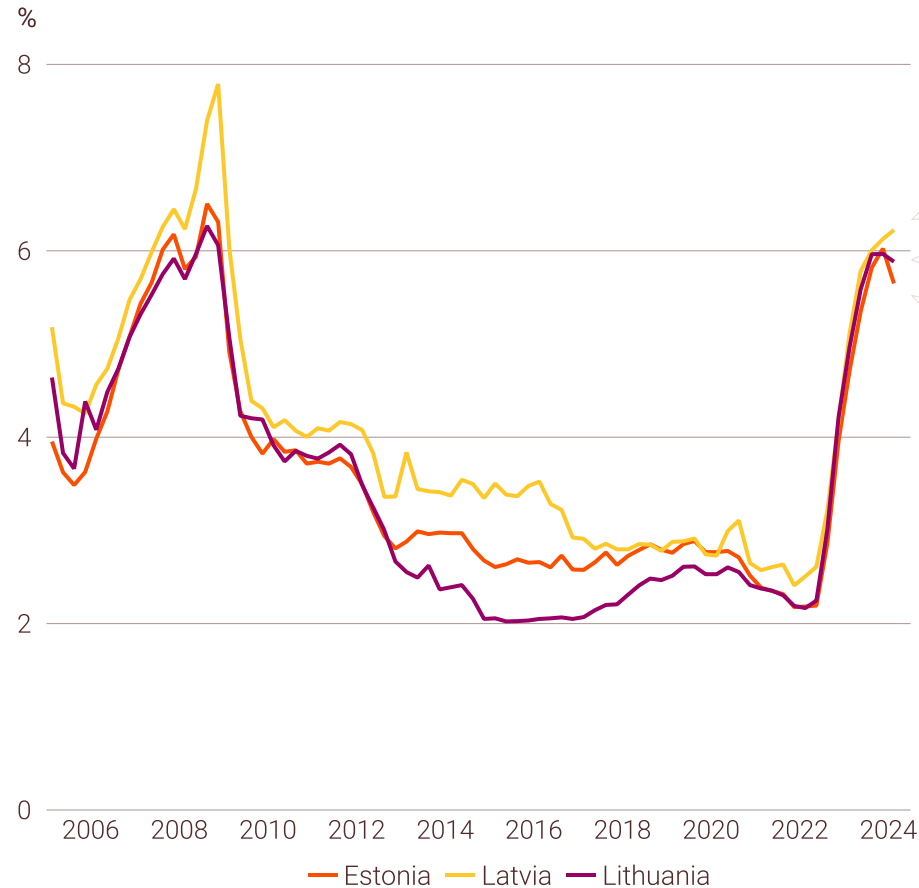
Sources: Swedbank Research & Macrobond

Note: A sharp decrease in the average price in Tallinn is due to a composition effect as the share of new developments registered decreased from 29% of the total in the fourth quarter of 2023 to 13% of the total in the first quarter of 2024.

Appendix (continued)

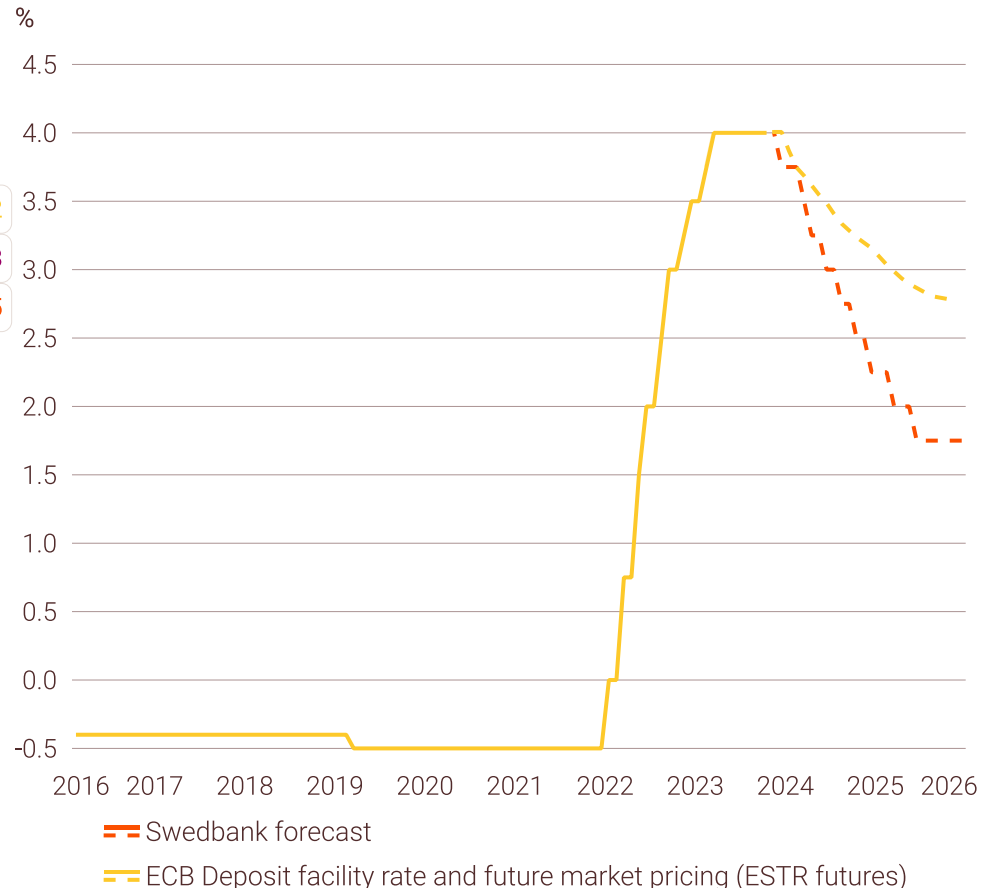
ECB rate cuts expected starting June.

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate market expectations and forecasts



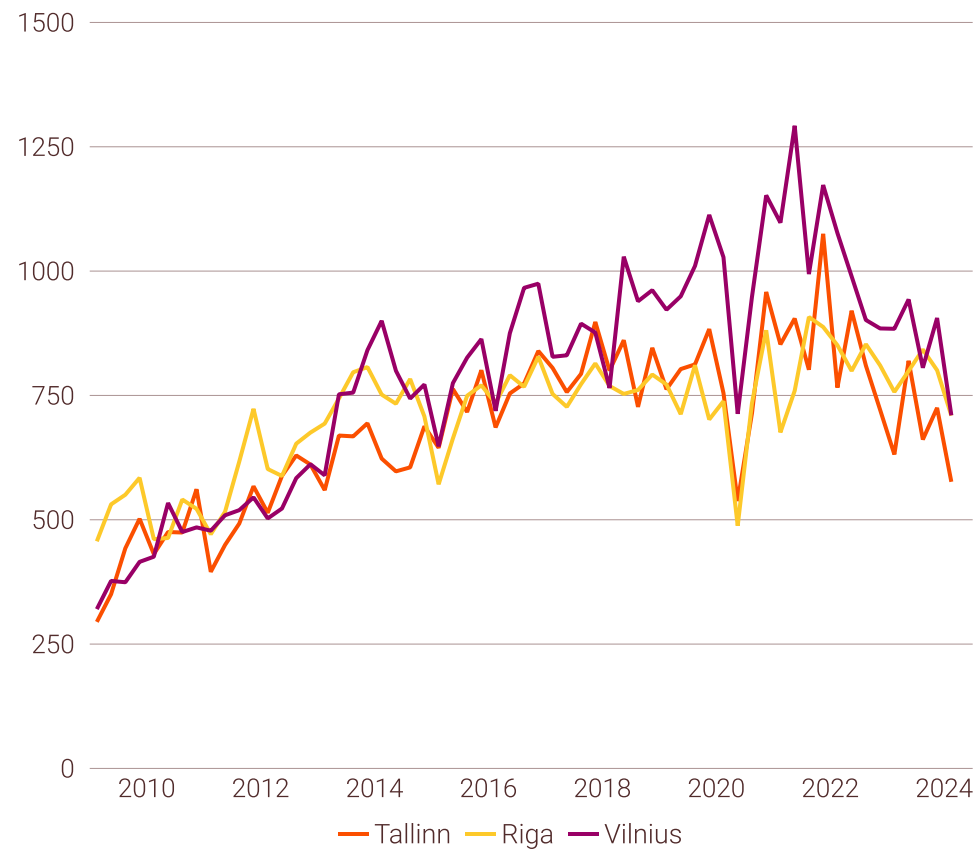
Sources: Swedbank Research & Macrobond

Appendix (continued)

Market activity at rather low levels.

Transactions with residential apartments

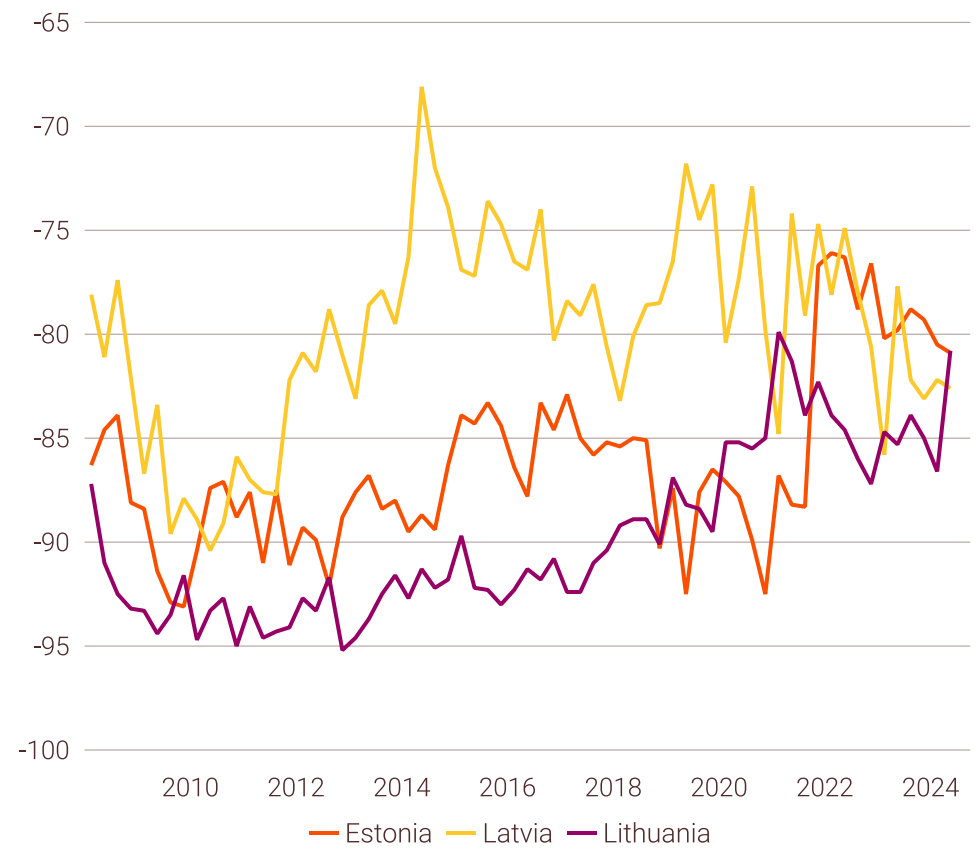
Number per month, quarterly average



Sources: Swedbank Research & Macrobond

Consumer confidence to purchase or build a house

Baltics, over the next 12 months



Sources: Swedbank Research & Macrobond

Baltic Housing Affordability: Methodology

Objective

The Baltic housing affordability (henceforth – HA) measures the size of an apartment that an average household can afford to buy with a mortgage in the Baltic capitals.

Norm (the main assumption)

Household monthly mortgage payments do not exceed 30% of household income.

Variables

- Average apartment price per m²: three-month average apartment transaction price per m² in Baltic capitals.
- Household income: 1.5 of average monthly net wages in Baltic capitals.
- Mortgage interest rate: three-month average annual percentage rate of charge (including interest rate and other related charges) for new housing loans to households, issued in euros, in the Baltics.

Other assumptions

- Average apartment size: 55 m² (our benchmark).
- Down payment: 15% of total apartment price.
- Term: 30 years.
- Saving rate for down payment: 30% of household income.

Calculation of HA

The HA shows how many square meters of an apartment a household can afford, given it uses 30% of its income to service mortgage payments.

$$HA = \frac{\text{AverageINC}}{\text{NINC}}, \text{ where } \text{NINC} = \frac{\text{PMT}}{30\%}$$

where AverageINC – household income,
NINC – household income that satisfies the norm,
PMT – monthly mortgage payment.

Limitations

The HA provides an indication of the average household situation, not that of a particular household. Household income and mortgage interest rates faced by a particular household may differ from those presented in the report. The HA accounts for mortgage costs but excludes taxes and subsidies, including property tax and interest deductions. It also does not consider other household expenses that could affect the household's ability to service mortgage payments, such as rent, lifestyle, or existing liabilities. The HA does not provide any direct guidance for business decisions, including lending and interest rate decisions.

The average apartment price per m² reflects past transactions and does not necessarily indicate the potential affordability or price of apartments in the future. Differences in apartment segment structure and the physical condition of newly built apartments at the time of purchase might affect the comparability of the average apartment price per m² across the Baltic capitals.

The HA is of an informative nature and reflects macroeconomic developments, rather than banks' decisions and lending policies or the potential behaviour of individual households.

Change of methodology

Starting in 2024, instead of expressing HA as an index, the report was changed to highlight the size of apartments afforded. Otherwise, the methodology is unchanged, the switch is purely for ease of interpretation purposes.

Frequency

Quarterly.

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