

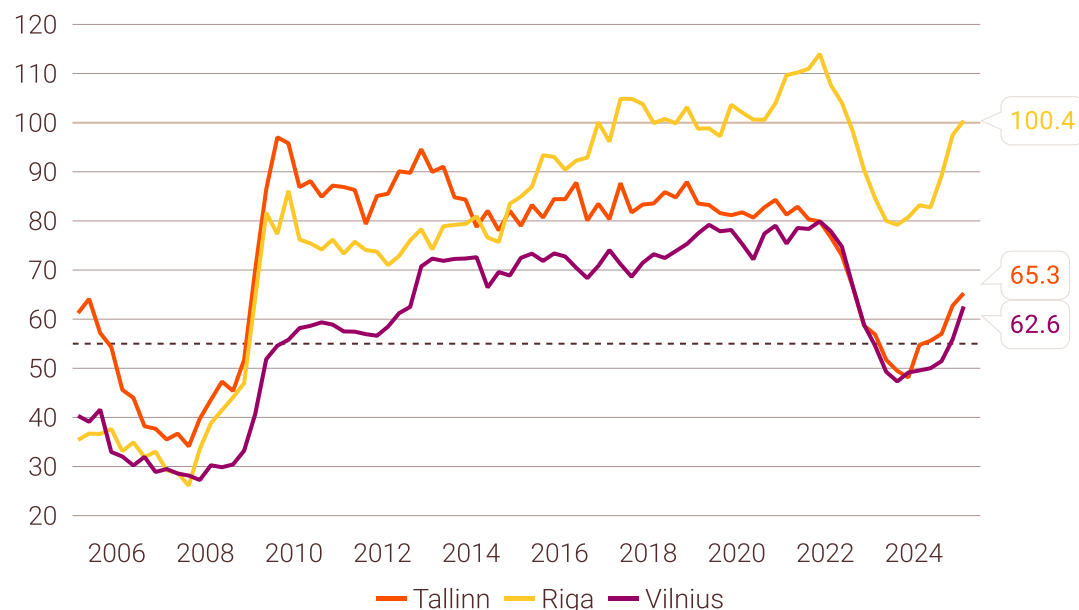
Baltic Housing Affordability: 2025 Q1

Falling interest rates are attracting buyers

- Declining interest rates and solid wage growth, especially in Riga and Vilnius, increased housing affordability.
- The ECB could cut rates three more times this year, which will support affordability going forward.

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.

The line at 55m² indicates the average size of apartment typically bought in the Baltic capitals.

Sources: Swedbank Research & Macrobond

Example: 100.4 m² represents the apartment size that an average household in Riga can afford, given 1.5 times the average net monthly wage, the quarterly average apartment price, and the interest rate for new loans.

Housing markets in the Baltic capitals seem to be faring well against the backdrop of skyrocketing global uncertainty. Easing inflation pressures in the eurozone have allowed the ECB to cut interest rates three times since January. Wage growth confidently outpaced apartment price increases, especially in Riga and Vilnius. This has improved housing affordability in the first quarter for all three capitals.

Market activity remained relatively high, with most transactions concentrated in the secondary market. The situation in the primary market is varied, though. Activity in the Vilnius primary market has doubled year on year, and Riga finally seems to be emerging from a slump. Tallinn will also likely follow suit, but it is taking longer there for the primary market recovery to start.

Swedbank forecasts three more rate cuts by the ECB, reducing the deposit rate to 1.5% at the end of 2025 (markets currently price in two cuts). Lower rates will support affordability in all Baltics. In Latvia and Lithuania, net wage growth will provide an additional boost to affordability, while net wages in Estonia will see only limited growth. Improving economic activity might lift consumer confidence and could also support housing market activity going forward.

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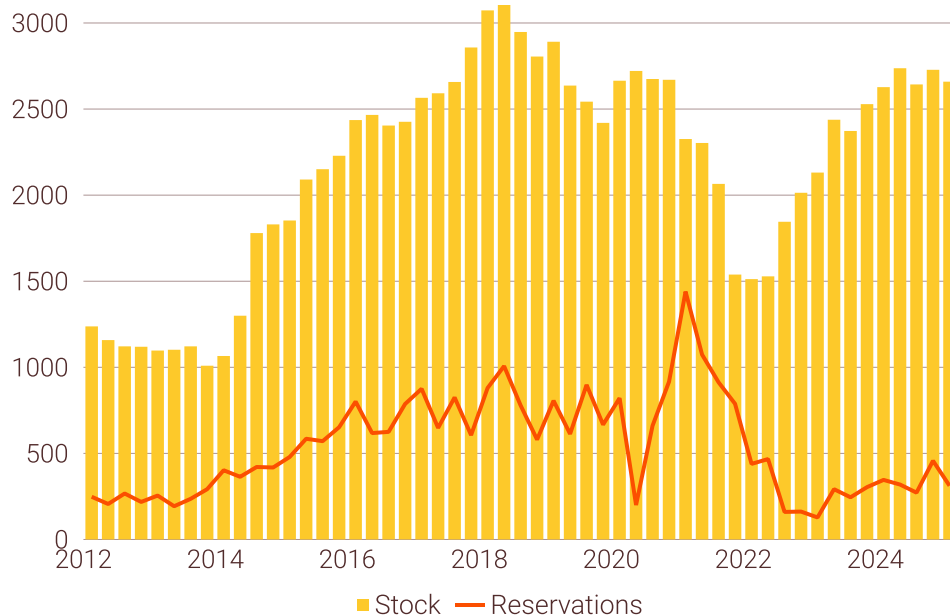
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Tallinn – activity is concentrated in the secondary market

Primary market is a privilege of wealthier households

Stock and sales of new apartments in Tallinn

Number of apartments

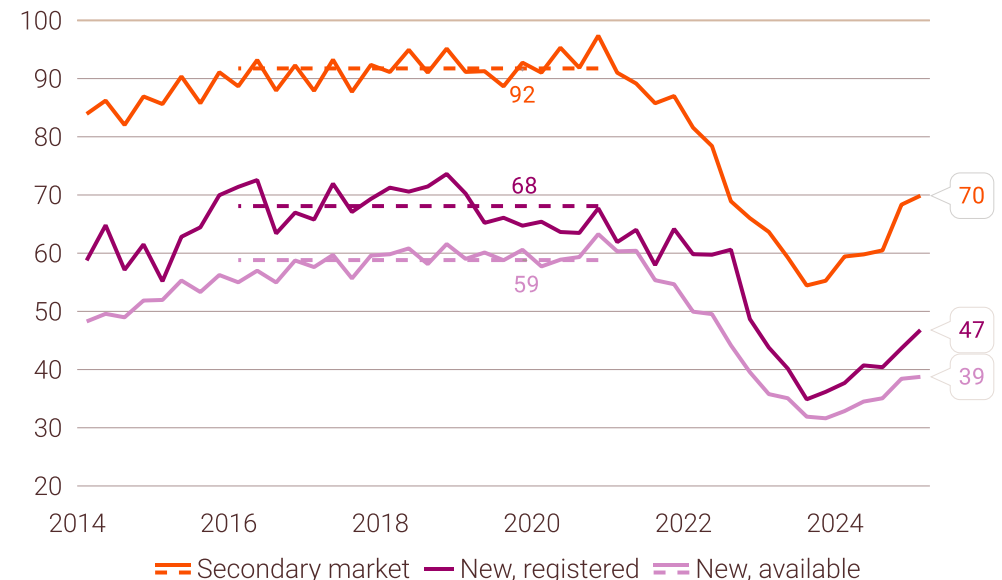


Sources: Swedbank Research & Macrobond

- Housing affordability continues to improve as interest rates are gradually coming down, bringing more buyers to the housing market. In the first quarter, activity was still concentrated in the secondary market, while reservations in the primary market were muted.
- Prices in the secondary market were 3% higher year on year. Whereas prices in the primary market were 3% down, as previously negotiated, discounts between buyers and developers are now becoming visible in the registry data. However, the average price, according to developers' homepages, increased by 3% over the year and for the first time surpassed EUR 5,000 per square meter.
- With demand low, the rising prices in the primary market currently available for

Housing affordability

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



Sources: Swedbank Research & Macrobond

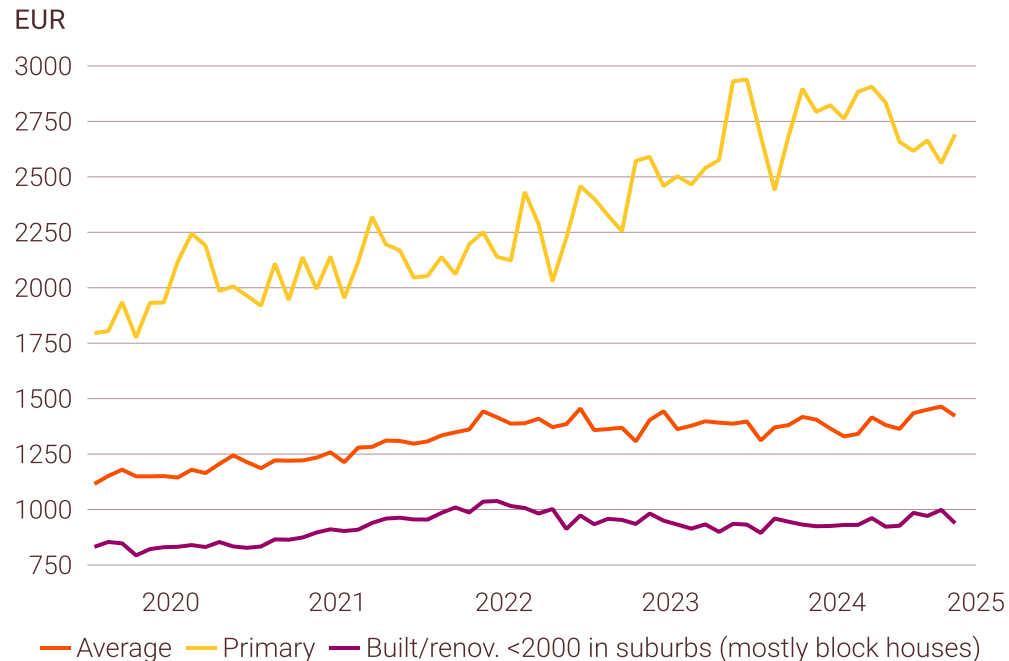
purchase can partly be explained by a significant stock of flats in more prestigious areas. Developers have re-oriented towards wealthier buyers, since even the economical segment in the primary market has been out of reach for most households.

The tide is turning – interest rate cuts are changing the environment and making housing affordable more widely. However, the personal income tax increase and elevated inflation are decreasing real net wages and dampening households' confidence this year. Demand for new developments is coming out of the slump more slowly due to the higher price level; however, falling interest rates should eventually bring more buyers to the primary market also.

Riga – some improvement in affordability

Rising apartment prices bring headwind to the recovery

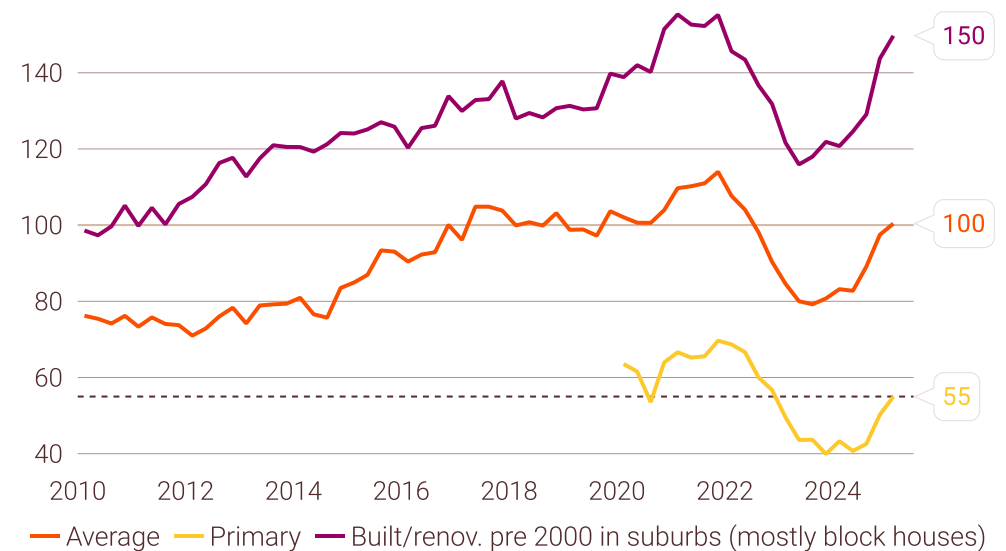
Prices of residential apartments in Riga



Sources: Swedbank Research & Macrobond

Housing affordability in Riga

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



The dashed line at 55m² indicates the average size of apartment typically bought in Riga.

Sources: Swedbank Research & Macrobond

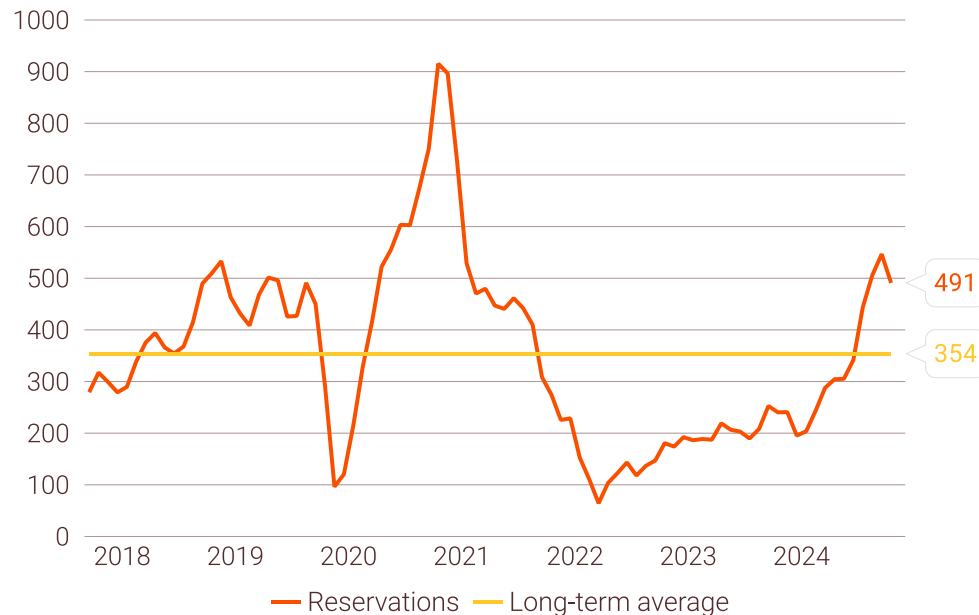
- At the beginning of 2025, housing affordability continued to improve. This was due to interest rates continuing to decline, and wage growth, supported by labour tax changes, remaining high. However, after the past few years of negligible changes, the average apartment price saw nearly a 7% increase over the first quarter of 2024. This weakened the recovery of housing affordability.
- Market activity declined slightly, yet remained relatively high, suggesting that the fourth quarter's excellent result was not a fluke. The primary market is getting out of the slump, and soft reservations (i.e., reservations requiring notably smaller initial payments) are becoming a more common tool to lure in new buyers. The stock of unsold apartments remained high.
- 55-60 m² is the typical size for newly built apartments in the economical segment. Our calculations indicate that, after two years of notably lower affordability, the average household can once again afford to purchase a 55 m² apartment in the primary market. Thus, it seems that the spoils of a newly built apartment are no longer limited to those at the upper end of the income distribution.
- We forecast resilient wage growth in Latvia and a continued decline in interest rates for the remainder of the year. Despite geopolitical turmoil, which brings more uncertainty, higher economic activity should improve consumer confidence and fuel market activity.

Vilnius – market activity is booming, but ample stock is keeping price pressure in check

Lower interest rates and strong wage growth continue to fuel market optimism

Apartment reservations in the primary market

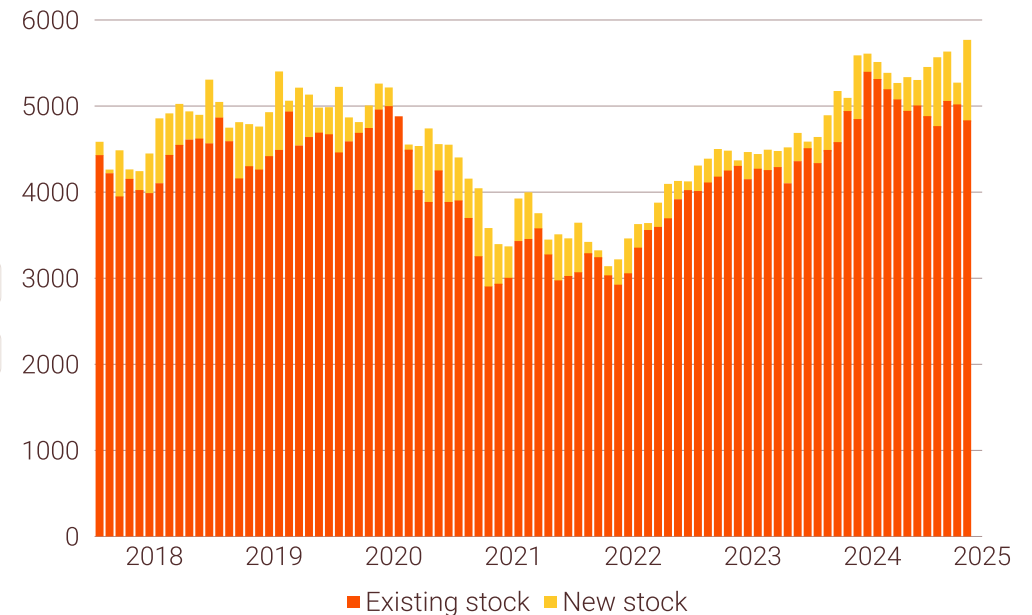
Apartments per month



Sources: Inreal, Swedbank Research & Macrobond

Primary market, housing inventory

Number of apartments



Sources: Swedbank Research & Macrobond

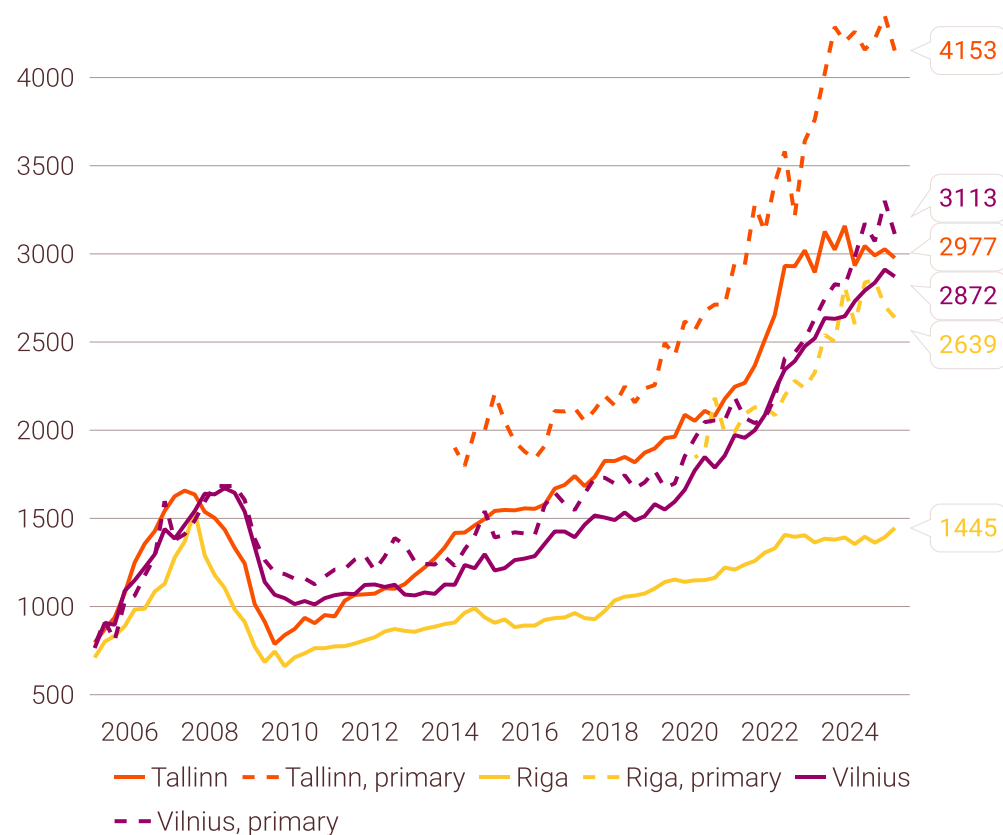
- In the first quarter of the year, the number of transactions in the primary market surged – increasing by 50% from the preceding quarter and more than doubling year on year. Lower interest rates, increasing wages, and fading expectations that real estate prices could fall have sparked a very rapid recovery in the housing market.
- With borrowing costs declining and wage growth outpacing the house price increase, affordability has continued to improve. Buyers on average can afford to buy a 62.6 m²-sized apartment in Vilnius, 6 m² more than in the previous quarter. With affordability improving, market activity is expected to remain strong this year.
- The repeat sales house price index shows that price growth in the capital remains near zero. Significant price increases are unlikely this year, given the large surplus of unsold homes carried over from the slowdown years.
- The stock of unsold apartments in Vilnius remains at its highest level in seven years but should decline going forward. The recent uptick in housing starts will help to mitigate the cyclical risk of a supply shortage in the face of rapidly increasing demand.

Wage growth still outpacing housing price growth

In Latvia and Lithuania, net wages will continue growing strongly

Average apartment price

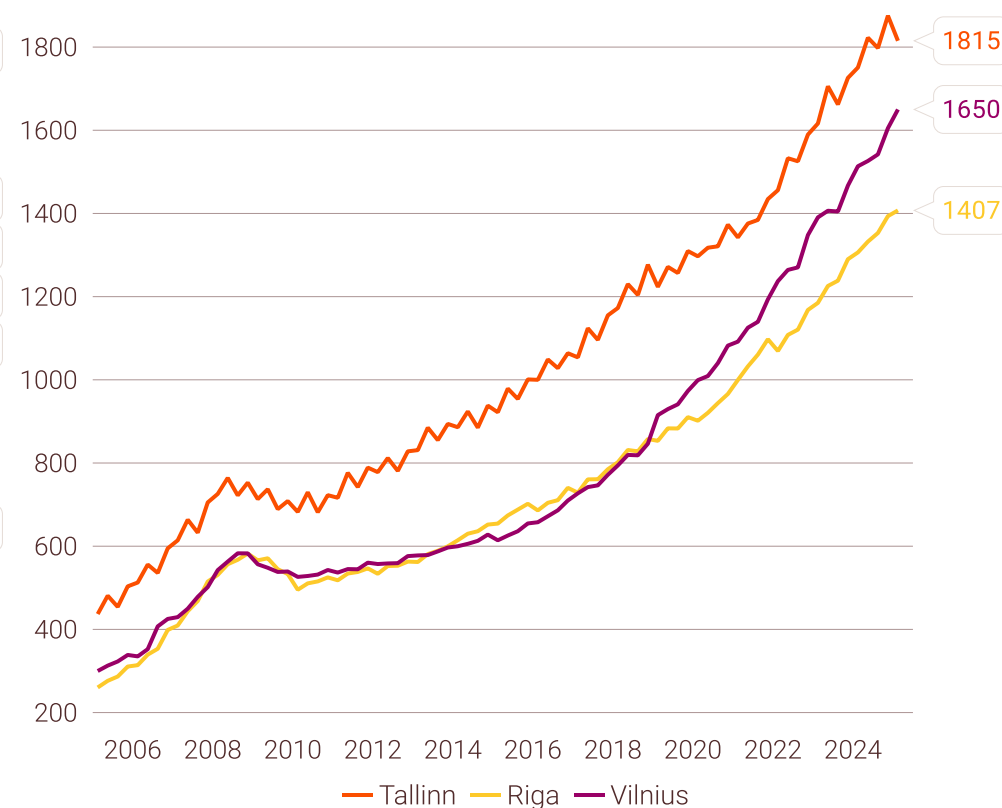
EUR/m²



Sources: Swedbank Research & Macrobond

Average monthly net wage*

EUR



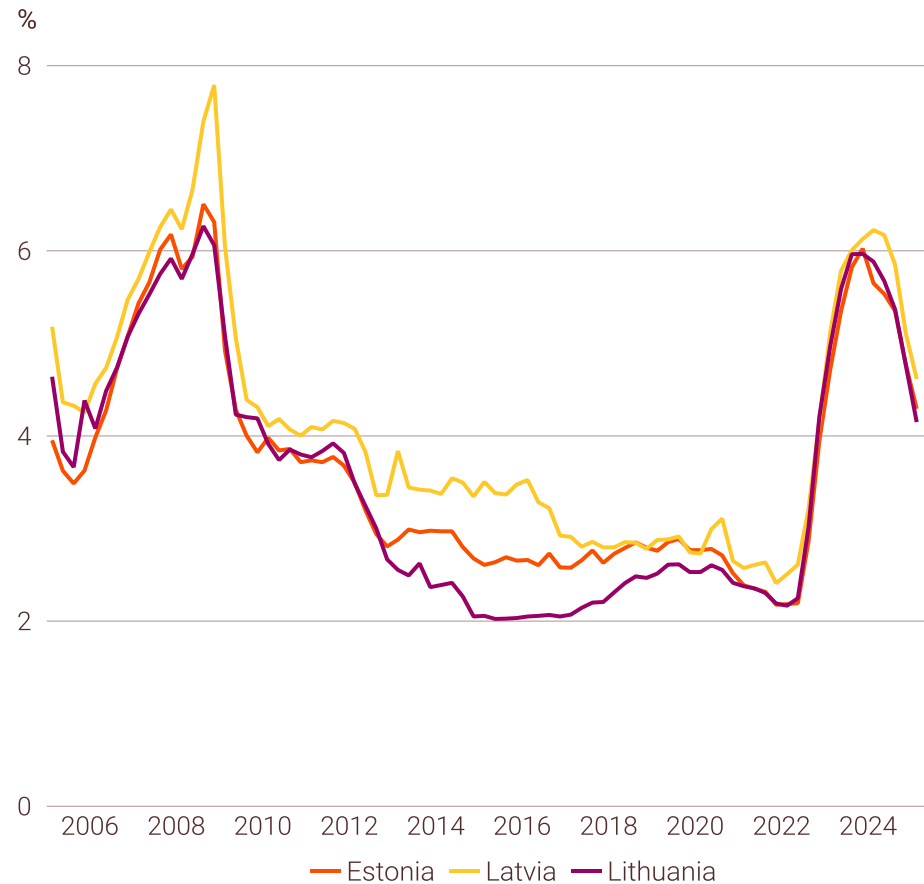
* An estimate for the last quarter

Sources: Swedbank Research & Macrobond

Rates for new mortgages have continued to decline

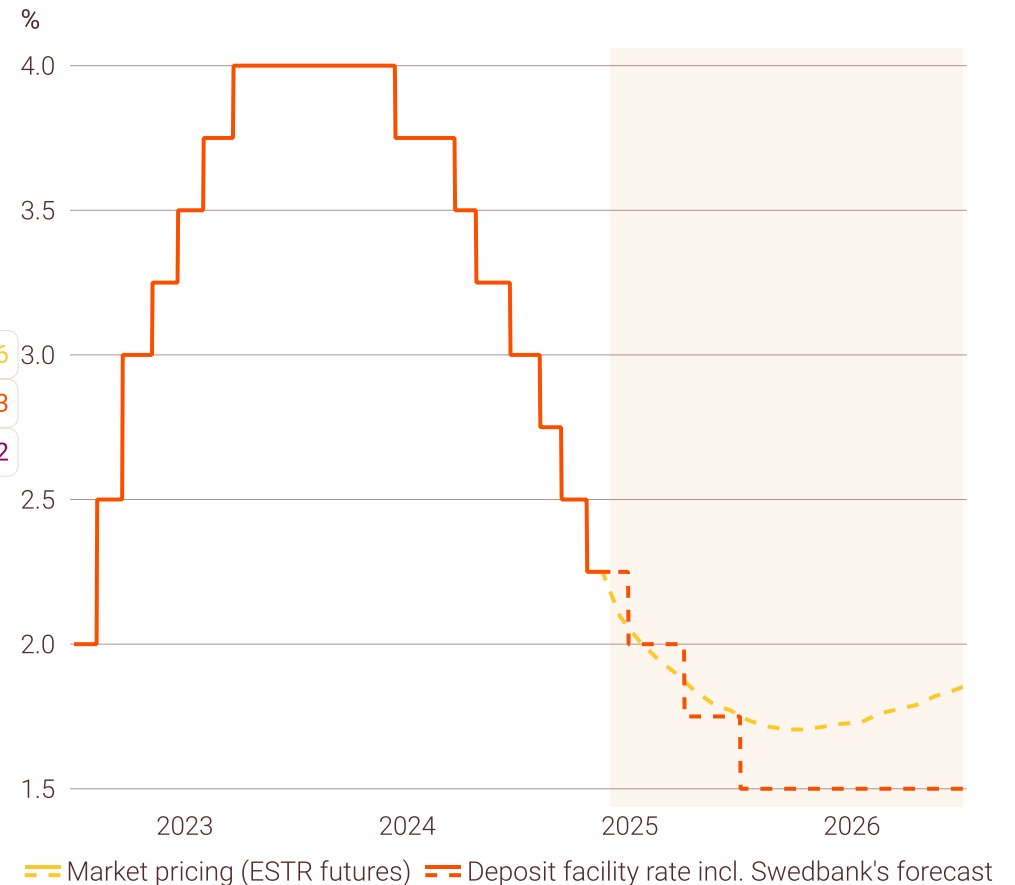
The ECB deposit rate is expected to stabilize at around 1.5% at the end of 2025

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



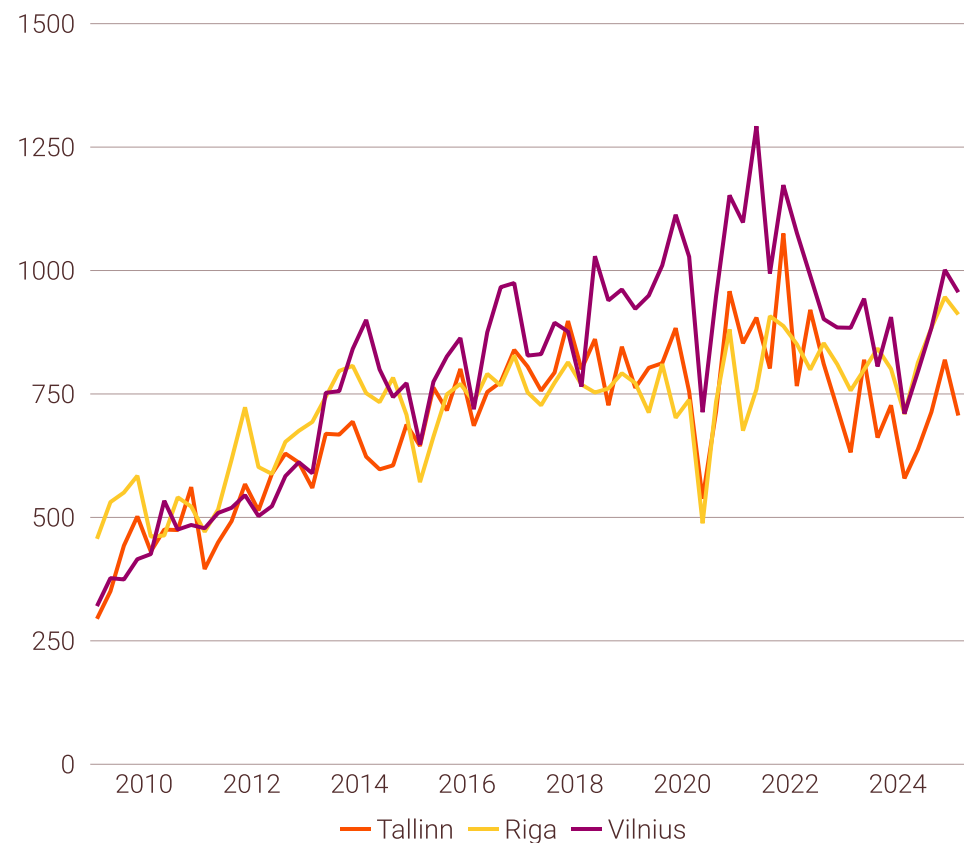
Sources: Swedbank Research & Macrobond

Market activity is recovering

Trade war turbulence and higher inflation have worsened consumer confidence

Apartment transactions

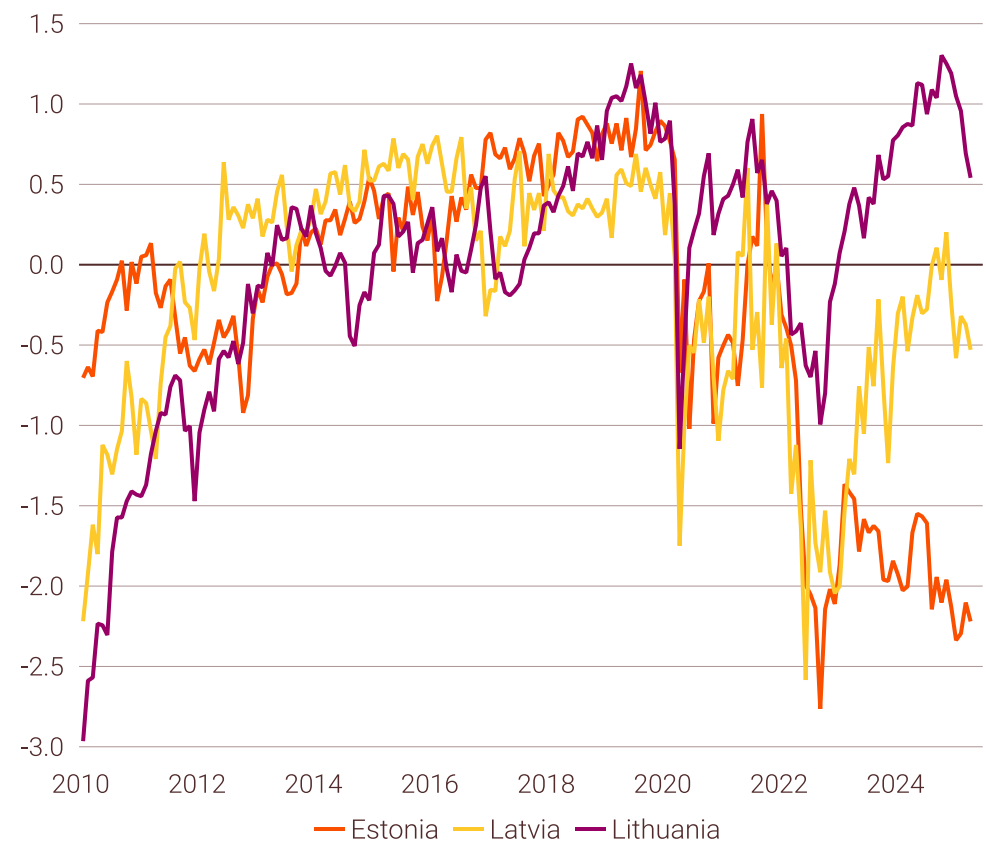
Number per month, quarterly average



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardized, 0 = long term average



Sources: Swedbank Research & Macrobond

Baltic Housing Affordability: Methodology

Objective

The Baltic housing affordability measure (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,
 and 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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