

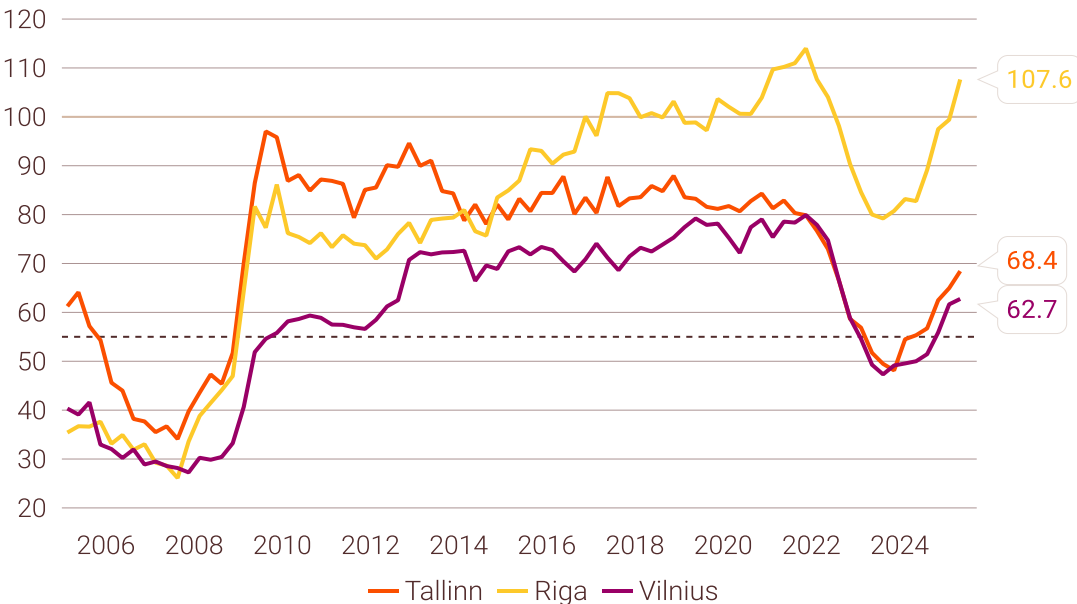
Baltic Housing Affordability: 2025 Q2

Housing affordability up in the Baltics, but market dynamics vary

- The most notable improvement across the Baltics was in secondary market activity.
- Summer heat in Vilnius, spring in Riga and a prolonged winter in Tallinn’s primary market.

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

Housing affordability continued to recover in all Baltic capitals in the second quarter of 2025, supported by two 25 basis point cuts by the ECB and net wage growth outpacing apartment price increases. While there is still some road ahead to full recovery in Tallinn and Vilnius, the peak is in sight for Riga. This is thanks to Riga’s largest market segment – block type apartments – which has shown exceptional improvement in affordability, now surpassing 2021 peak levels.

Market activity was notably higher than a year ago, with most activity seen in the more affordable secondary market. The primary market is also seeing strong momentum in Riga, and even more so in Vilnius, while remaining subdued in Tallinn.

Swedbank expects two more rate cuts by the ECB before the cutting cycle ends (while markets have priced in just one), leaving the main policy rate at 1.5%. As rates are approaching the bottom, going forward the recovery in housing affordability is expected to be mainly driven by apartment price and net wage dynamics. Withdrawals from the second pension pillar, starting in 2026, along with a planned reduction in a required down payment in Lithuania, will give an additional push to market activity.

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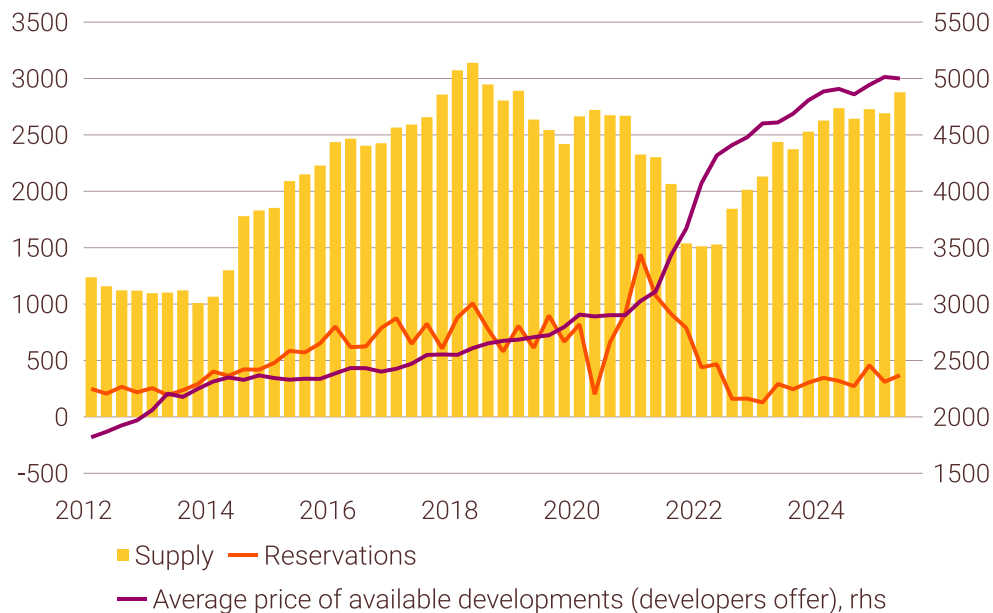
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Tallinn – affordable secondary market is fuelling buyer activity

Upturn in primary market demand remains gradual

New developments in Tallinn

Number of apartments (lhs), price/m2 (rhs)

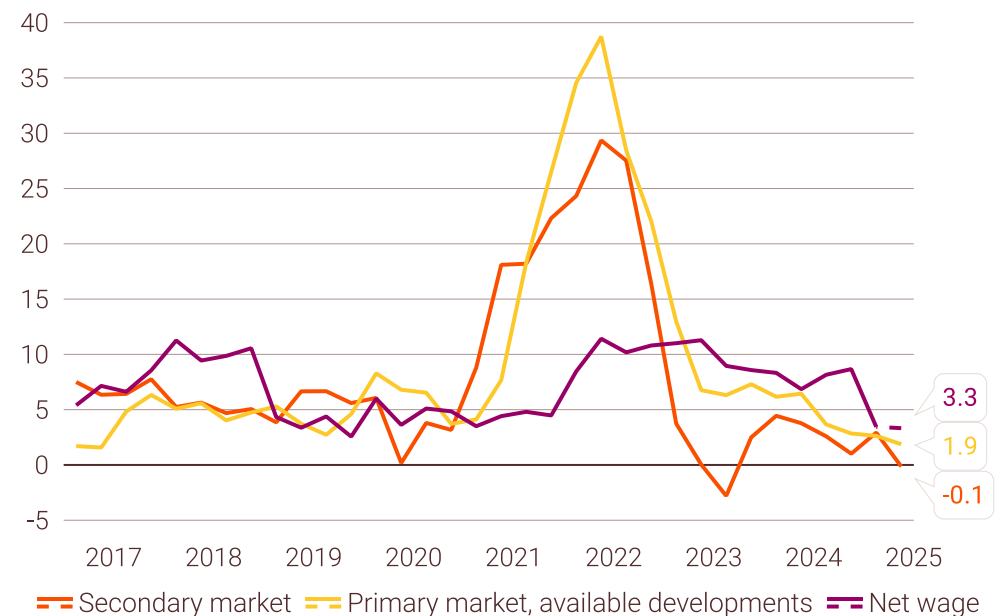


Sources: Swedbank Research & Macrobond

- Housing affordability continues to improve, as interest rates are coming down. Although net wage growth has slowed considerably this year, it is outpacing apartment price increases and supports affordability improvement.
- The secondary market maintained robust activity in the second quarter, underpinned by affordable prices. In contrast, the recovery of the primary market has proceeded at a slower pace. Although reservations of new developments were above last year's average ahead of the VAT hike in July, the increase in the primary market activity was not significant. Demand remains notably below pre-pandemic levels, and the stock is building up.

Apartment price and net wage in Tallinn

y/y %



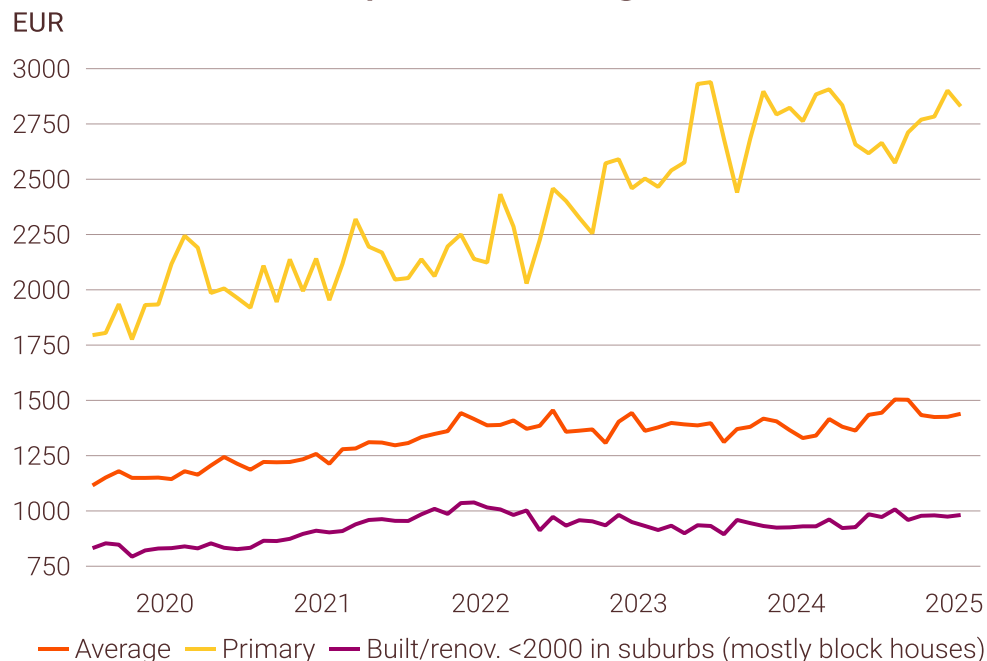
Sources: Swedbank Research & Macrobond

- Prices in the secondary market were unchanged over the year, suggesting that supply has been sufficient despite strong demand. The average price in the primary market, according to developers' homepages, was 2% higher over the year.
- Falling interest rates will continue to support housing affordability and demand this year. Demand for new developments is coming out of the slump more slowly due to higher prices; however, falling interest rates should continue to gradually bring more buyers to the primary market as well. Next year, an expected rise in household purchasing power will give additional support to household confidence and market activity.

Riga – steady growth in affordability

The block-type apartments made a full recovery

Prices of residential apartments in Riga

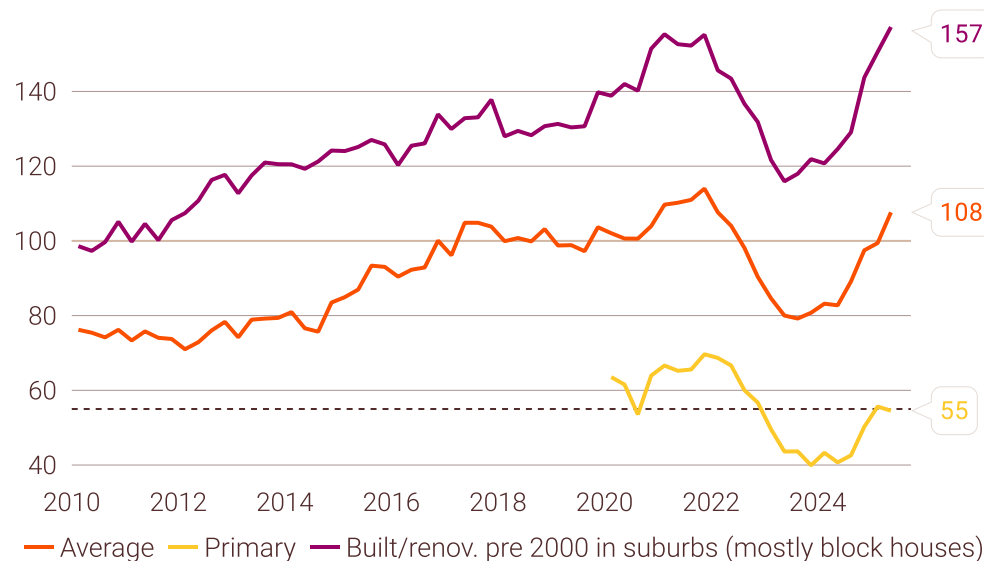


Sources: Swedbank Research & Macrobond

- In the second quarter of 2025, housing affordability continued to recover. This was largely due to lower interest rates and strong net wage growth, which notably outpaced rising apartment prices, after the wage-price growth difference briefly turned negative in the first quarter.
- Market activity changed little from the first quarter, remaining significantly above pre-Covid averages. The primary market is gaining momentum, with activity in the economical segment significantly higher than in recent years. To large extent, this is linked to surging mortgage demand, helping to reduce inventories in the primary market – the segment most reliant on loans.

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

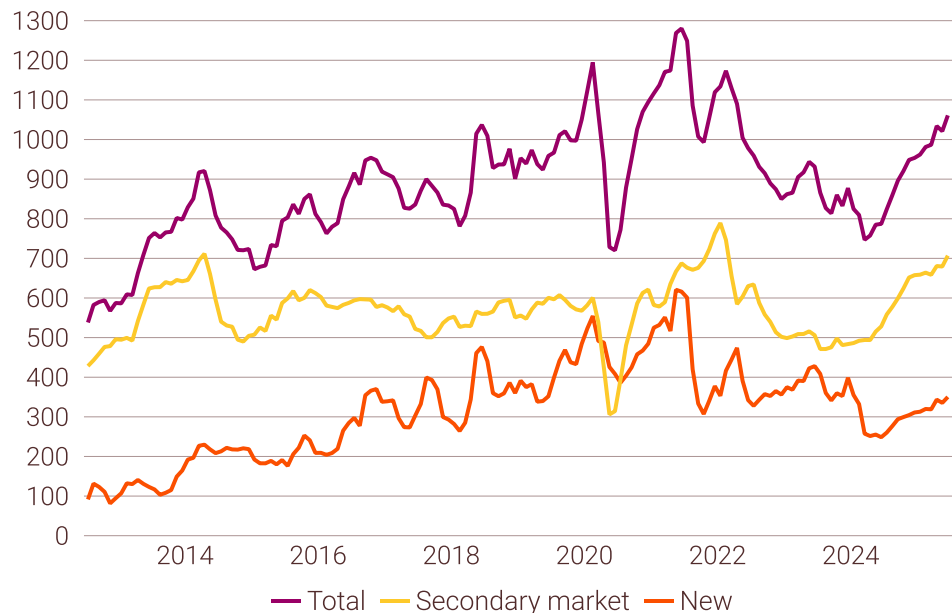
- Even though the average price of block-type apartments is rising and inching closer to EUR 1,000 per m² mark – a rare sight seen only in 2007 and 2022 – affordability of the segment has now fully recovered. Rising prices not only imply slower growth of affordability onwards but also may hinder recovery for the housing market in Riga overall.
- With just two rate cuts left in the current cycle, changes in housing affordability in 2026 will be mainly driven by net wage growth and apartment prices. This is likely to slow the pace of recovery. Fiercer competition among lenders might still reduce overall interest rates for mortgages, though.

Vilnius – increasing risks of a heatwave

Market activity continues to boom, with prices starting to follow suit

Officially registered apartment transactions in Vilnius

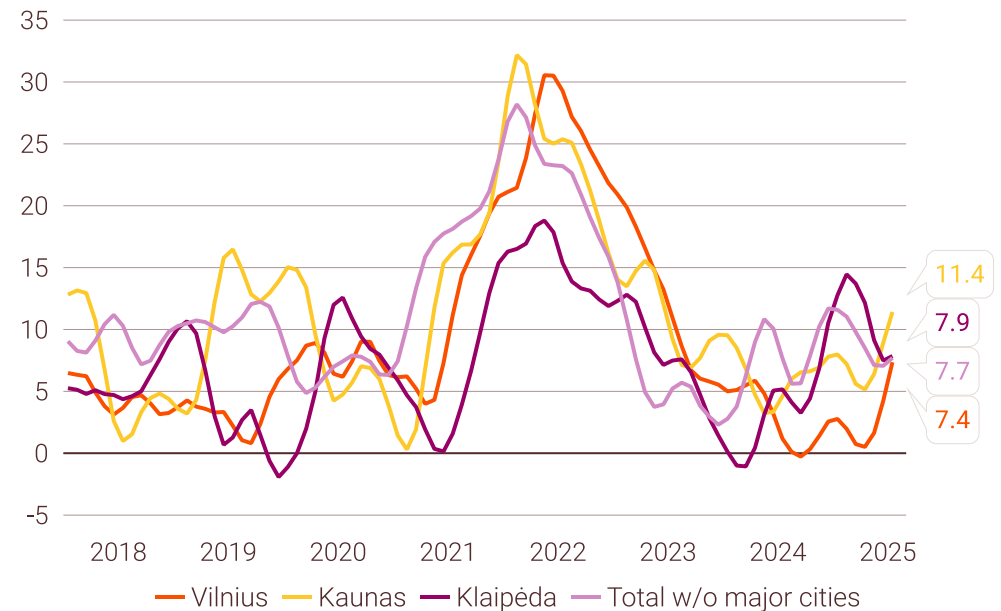
Seasonally adjusted, 3-month moving average



Sources: Swedbank Research & Macrobond

Repeat sales house price index

y/y %, 1 quarter moving average



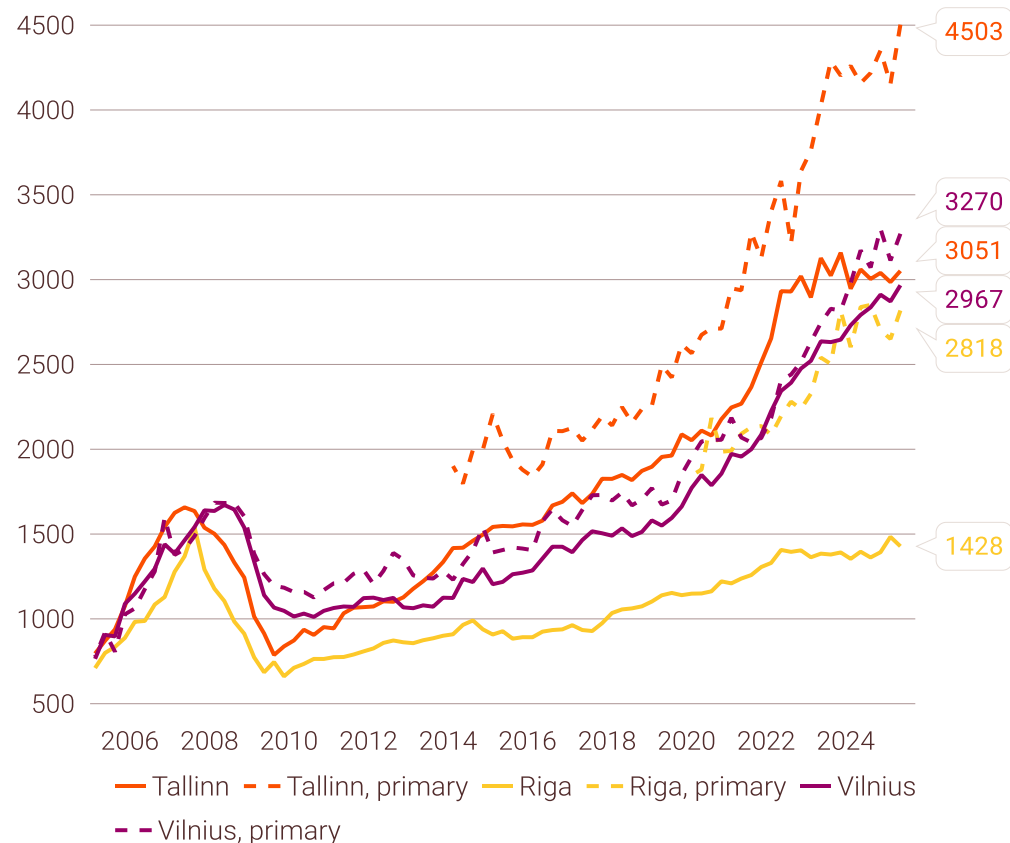
Sources: Swedbank Research & Macrobond

- In the second quarter of this year, the number of transactions reached its highest level since the end of 2021. Growth was driven primarily by the secondary market, which accounted for around 70% of all sales. However, the primary market is also booming, with apartment reservations up 130% year on year. Lower interest rates, rising wages, and fading expectations of a potential decline in real estate prices continue to attract buyers in the housing market.
- With borrowing costs declining, affordability has continued to improve, but rising apartment prices are dampening the recovery. Buyers on average can afford to buy a 62.7 m²-sized apartment in Vilnius, only 1.1 m² more than in the previous quarter.
- The repeat-sales house price index shows that price growth in the capital picked up, reaching more than 7% in July. Significant price increases have been avoided so far, thanks to a large surplus of unsold homes carried over from the slowdown years and to the completion of new projects.
- However, the possibility of withdrawing funds from the second pension pillar next year – an option expected to be used by a significant share of households – will add fuel to an already-booming market. The Bank of Lithuania's proposal to lower the mortgage down payment requirement for first-home buyers from 15% to 10% could further boost demand and affect price growth.

Wages still outpacing apartment price growth

Average price developments are uneven among capitals

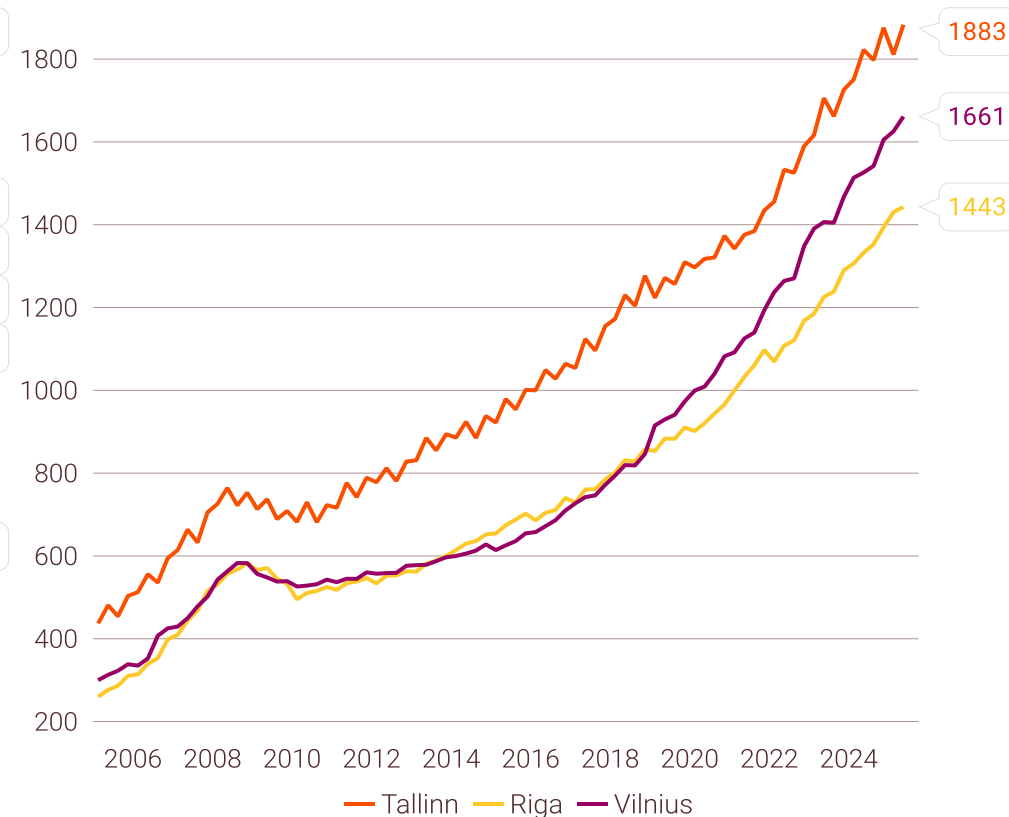
Average apartment price

EUR/m²

Sources: Land Boards, Swedbank Research & Macrobond

Average monthly net wage*

EUR



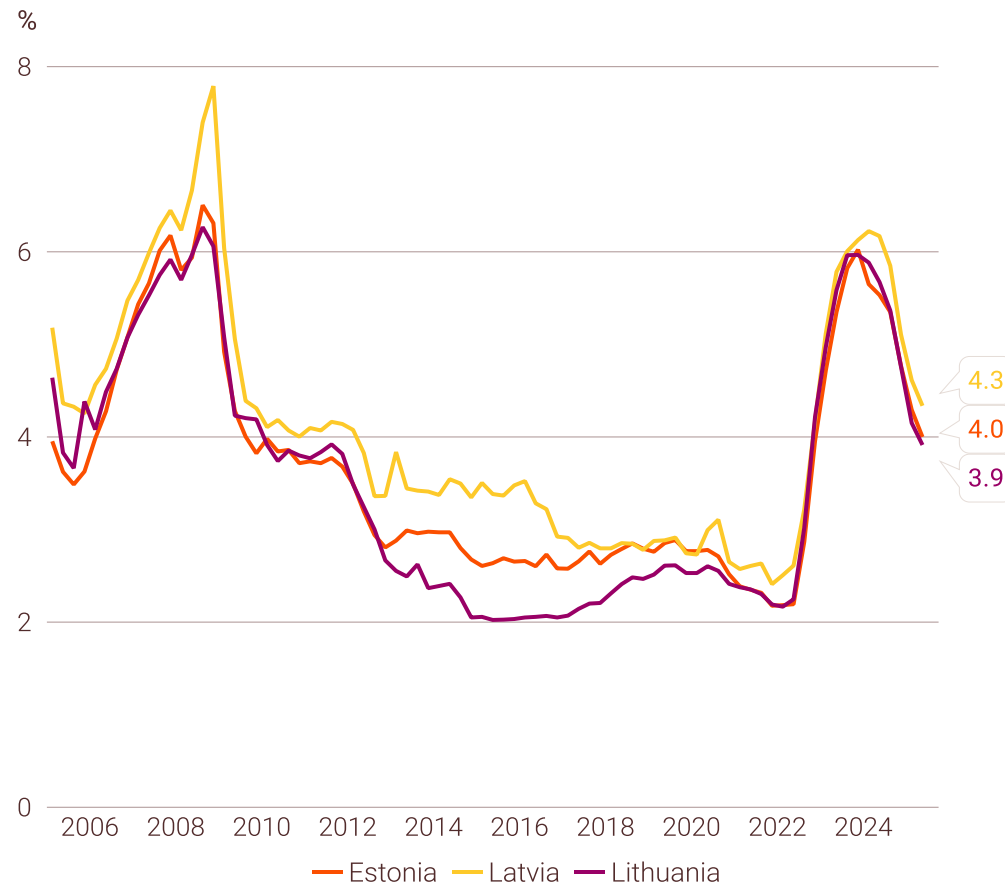
* An estimate for the last quarter

Sources: Swedbank Research & Macrobond

Interest rates swiftly declining

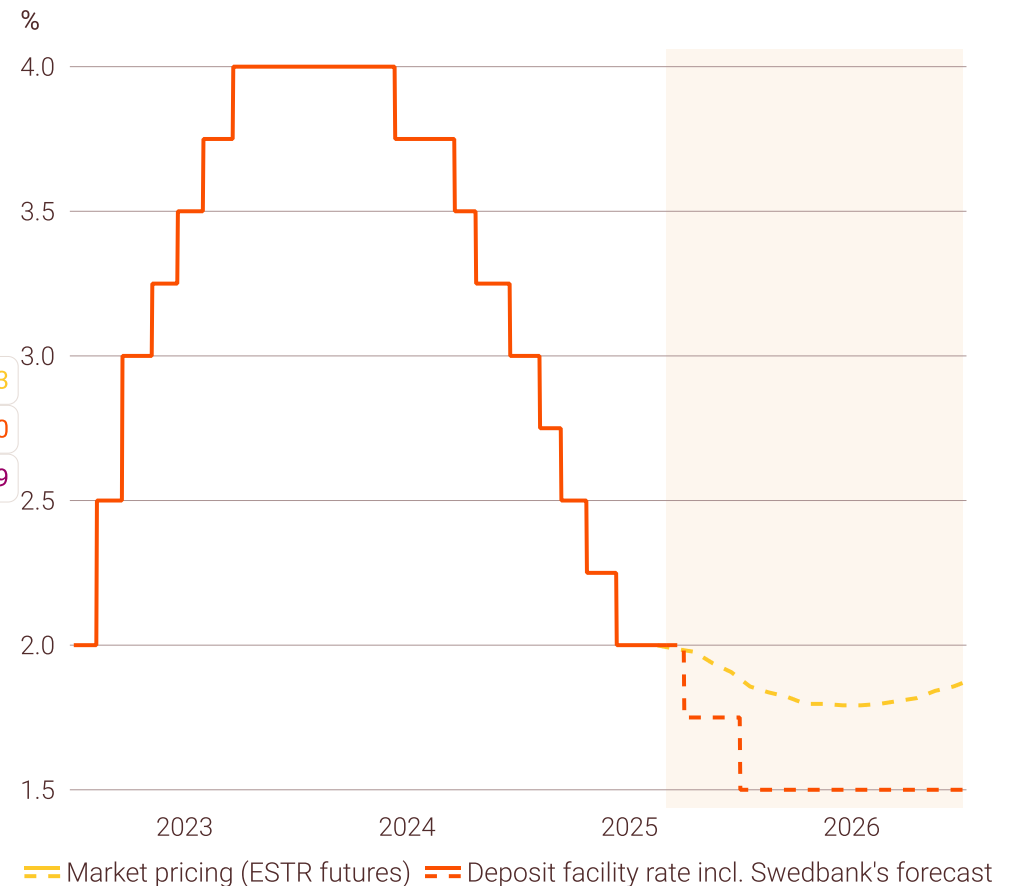
Swedbank forecast two more rate cuts by the ECB; markets have priced in just one

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



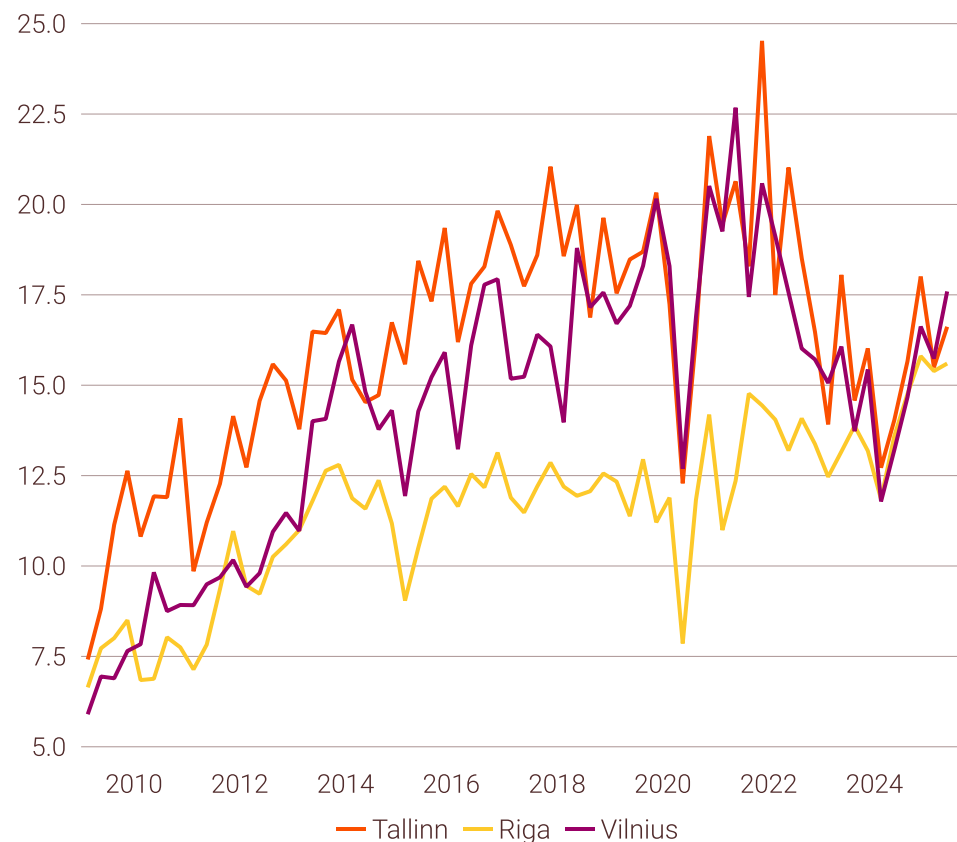
Sources: Swedbank Research & Macrobond

Market activity higher than a year ago

A drop in confidence in Estonia and Lithuania has not translated into weaker market activity

Transaction activity

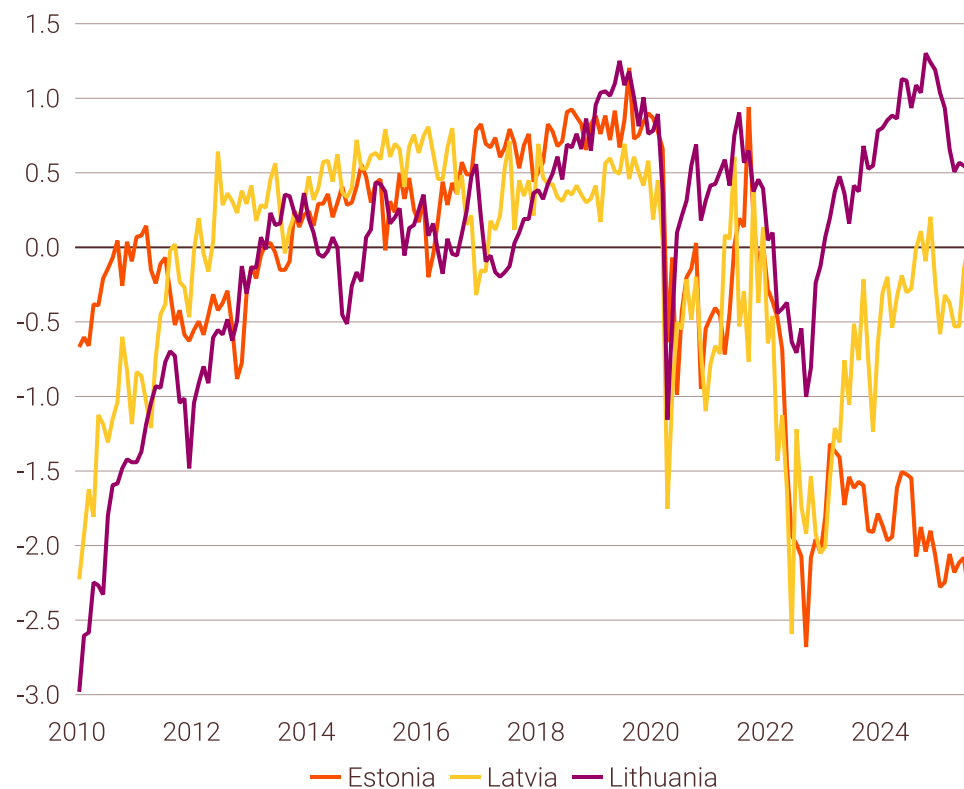
Transaction count per 10K residents, residential apartments



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardized, 0 = long term average



Note: In May 2022, Estonia changed its methodology – the survey is now conducted online with 1000 people interviewed.

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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