

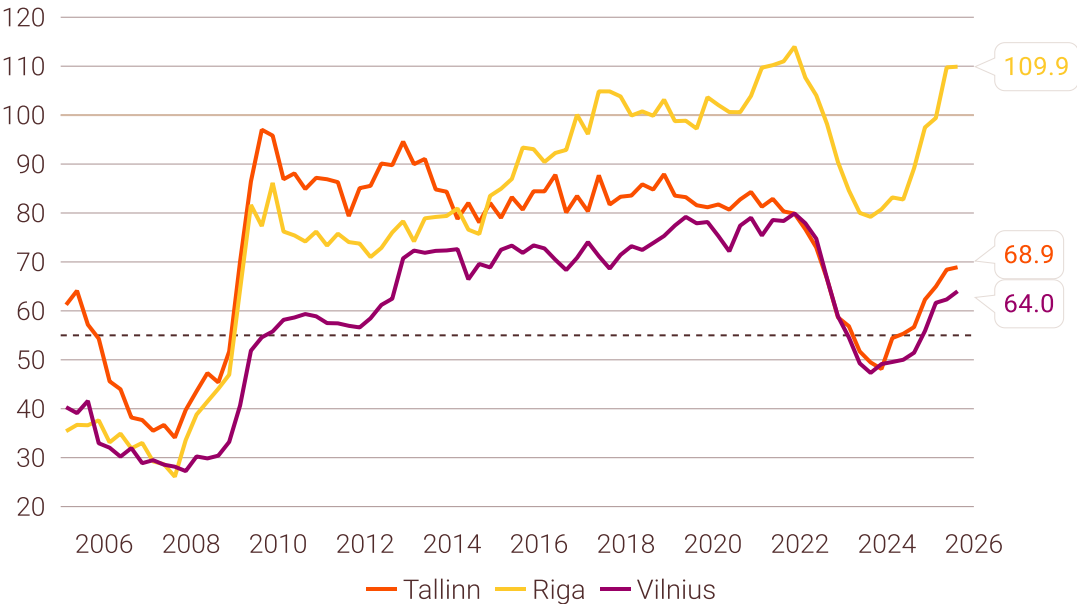
Baltic Housing Affordability: 2025 Q3

Housing affordability recovery starting to stall

- The impact of falling interest rates is fading.
- Policy changes and rising net incomes will continue to support market activity in 2026.

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: 64.0 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 saw only a marginal improvement in the third quarter of 2025, which comes as no surprise. With no changes in ECB interest rates since June, net wage growth remained the main driver of affordability. The good news is that net wages continue to outpace apartment price growth. While the 2021 peak in affordability is close for Riga, it will take time for the neighbouring capitals to make a full recovery, if at all possible given current trends.

Market activity remained high, although below the record levels seen after Covid-19 in Tallinn and Vilnius. In Riga, however, activity recently reached its highest level since 2007. As before, most deals are concentrated in the larger secondary markets, while in Vilnius and Riga primary markets are also strong. Mortgage lending is soaring at a pace last observed nearly 20 years ago, and consumer confidence showed a notable improvement in October.

Swedbank forecasts just one more rate cut by the ECB in the current cutting cycle, leaving the main policy rate at 1.75% in March. Net wage growth is expected to continue easing, except for Estonia, where the upcoming tax reform will notably boost net incomes. In Lithuania, the option to withdraw retirement savings from the second-pillar pension funds will give a temporary lift to both the Lithuanian economy and the housing market.

Analysts

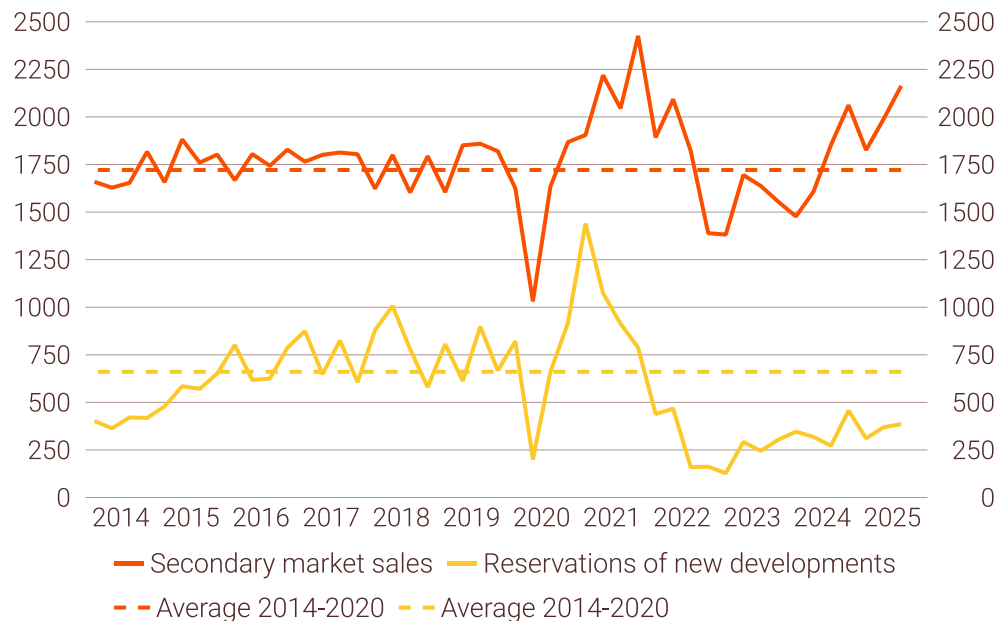
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Tallinn – large divergence between primary and secondary markets

Robust wage growth to boost housing demand and support affordability next year

Tallinn market activity

nr of apartments, quarterly

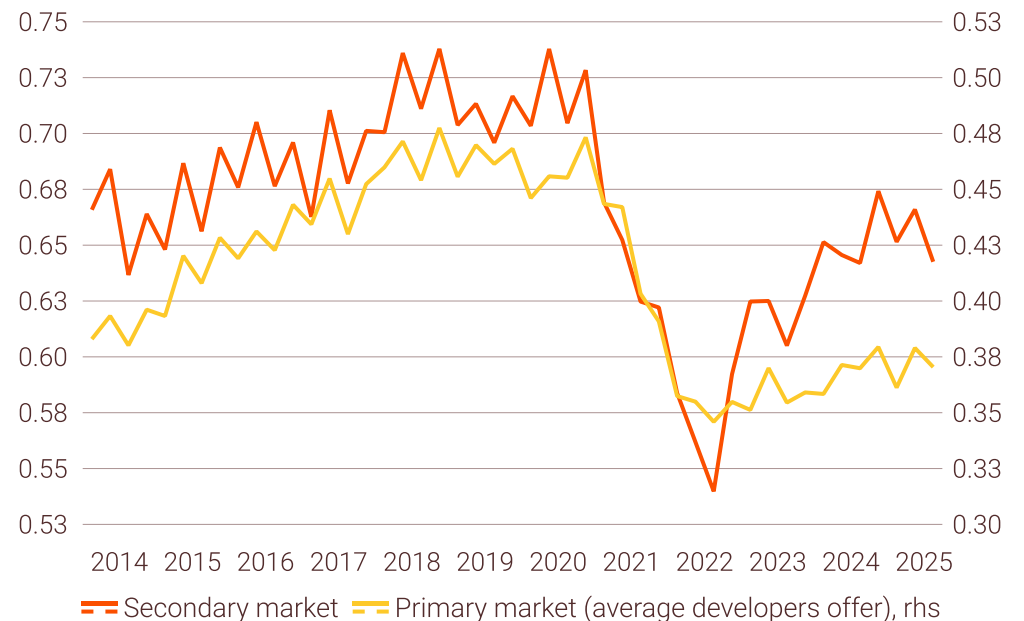


Sources: Swedbank Research & Macrobond

- The secondary market continued to drive market activity in the third quarter, while the high price level in the primary market remains a headwind to demand for new developments. Although reservations of new developments somewhat improved in the third quarter, demand remains well below the long-term average.
- The improvement in housing affordability has stalled, given the majority of the decline in interest rates has already occurred. As the cycle of interest rate cuts comes to an end, housing affordability increasingly depends on price and net wage dynamics.
- So far, the improvement of the purchasing power of a monthly wage has been more pronounced in the secondary market, while in the primary market it has

Purchasing power of a monthly wage in the housing market

m2 of apartment affordable with an average monthly wage



Sources: Swedbank Research & Macrobond

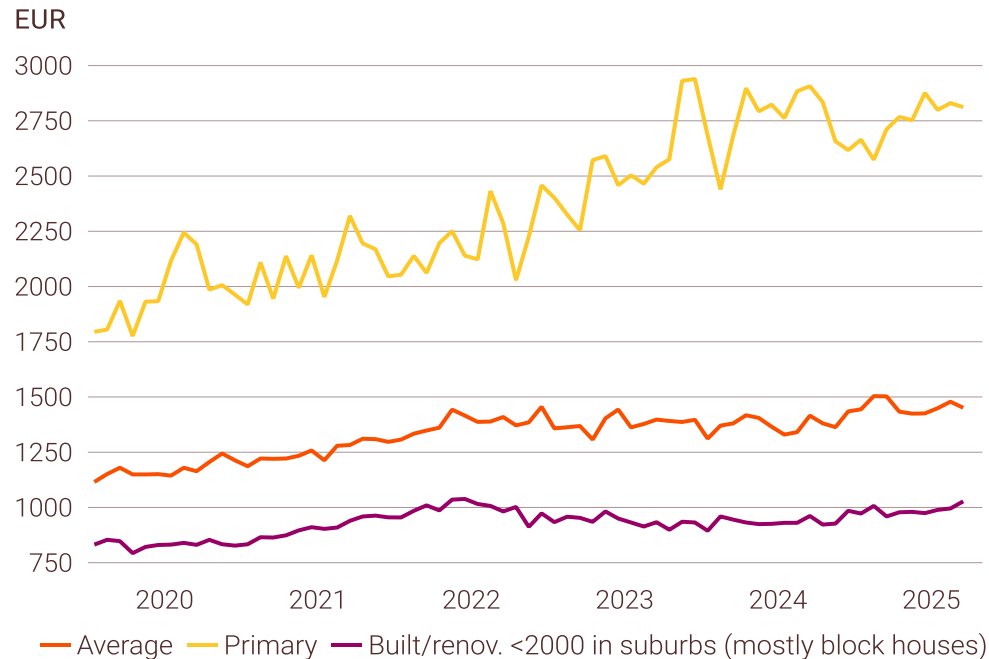
remained limited. In the third quarter, annual price growth in both the secondary market (+3.3%) and the primary market (+3.2%) was in line with net wage growth (+3.3%). The difference in price levels between the primary and secondary markets remains substantial.

- Next year, we expect average net wage growth to accelerate to double digits. The upcoming personal income tax reform is expected to benefit above-median earners more than those in the lower income deciles, which, in turn, is expected to support housing market activity. Higher demand is likely to accelerate price growth in the housing market. However, the ample supply means that wage growth will still outpace price growth, and housing affordability should continue to improve.

Riga – affordability remains nearly unchanged

Rising prices and rates near cycle lows signal slower affordability improvement ahead

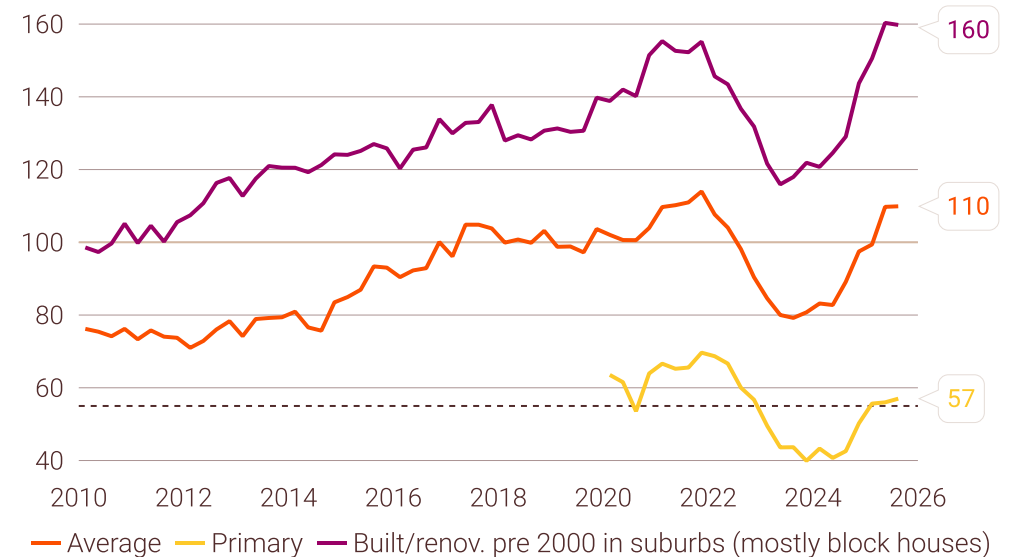
Prices of residential apartments in Riga



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 apartment size typically bought in Riga.
Sources: Swedbank Research & Macrobond

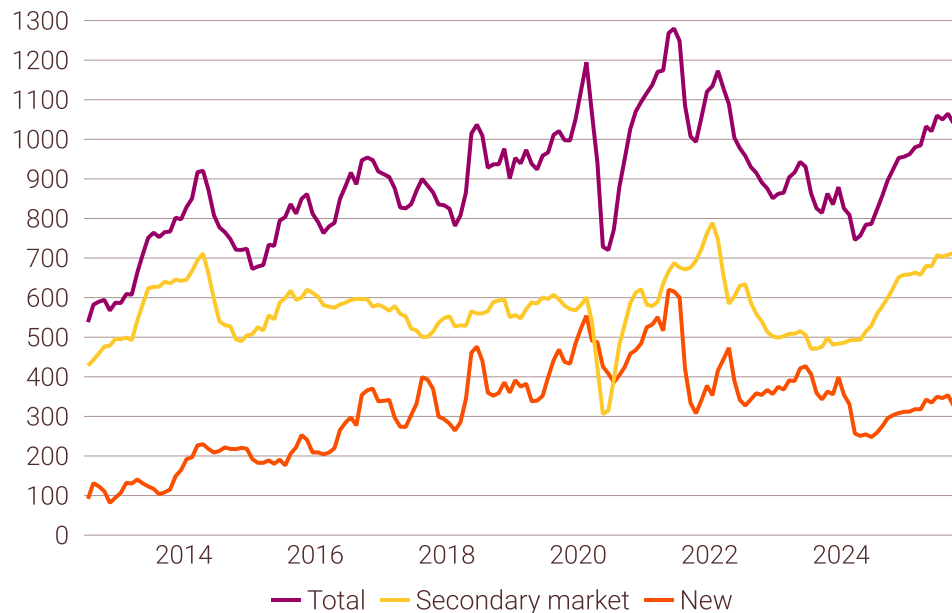
- In the third quarter of 2025, housing affordability remained nearly unchanged. While wage growth continued to outpace apartment prices, the difference narrowed from the previous quarter. ECB interest rates are nearing their low point in the current cutting cycle; however, fierce competition between lenders in Latvia may reduce overall mortgage lending rates further.
- Market activity remained high and well above previous years' averages. All segments saw at least some growth, with activity in the primary market rising the most. As a result, developers have become increasingly reluctant to offer the extras that previously helped stimulate demand, such as "free" in-built kitchen or parking space. Inventories are declining.
- Block-type apartment prices have been on the rise since late 2023 and now exceed EUR 1,000 per m². To a large extent, the increase may be activity-induced. This, paired with the gradually increasing share of the primary market, might push the average price higher and thus hinder further improvements in housing affordability.
- Housing affordability in 2026 will largely depend on the balance between wage and apartment price growth in Riga. Net wage growth is likely to slow next year, as the positive impact from the increased non-taxable minimum will be less material than from the major tax changes of 2025. As a result, Riga's housing affordability should continue to improve, albeit at a much slower pace.

Vilnius – no cooldown in sight

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

Officially registered apartment transactions in Vilnius

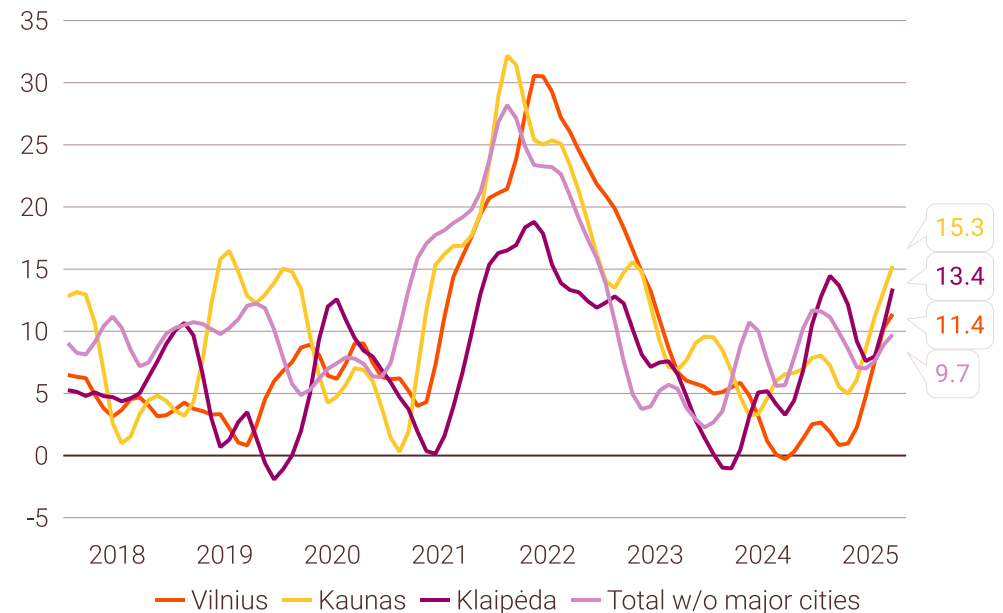
Seasonally adjusted, 3-month moving average



Sources: Swedbank Research & Macrobond

Repeat sales house price index

y/y %, 1 quarter moving average



Sources: Swedbank Research & Macrobond

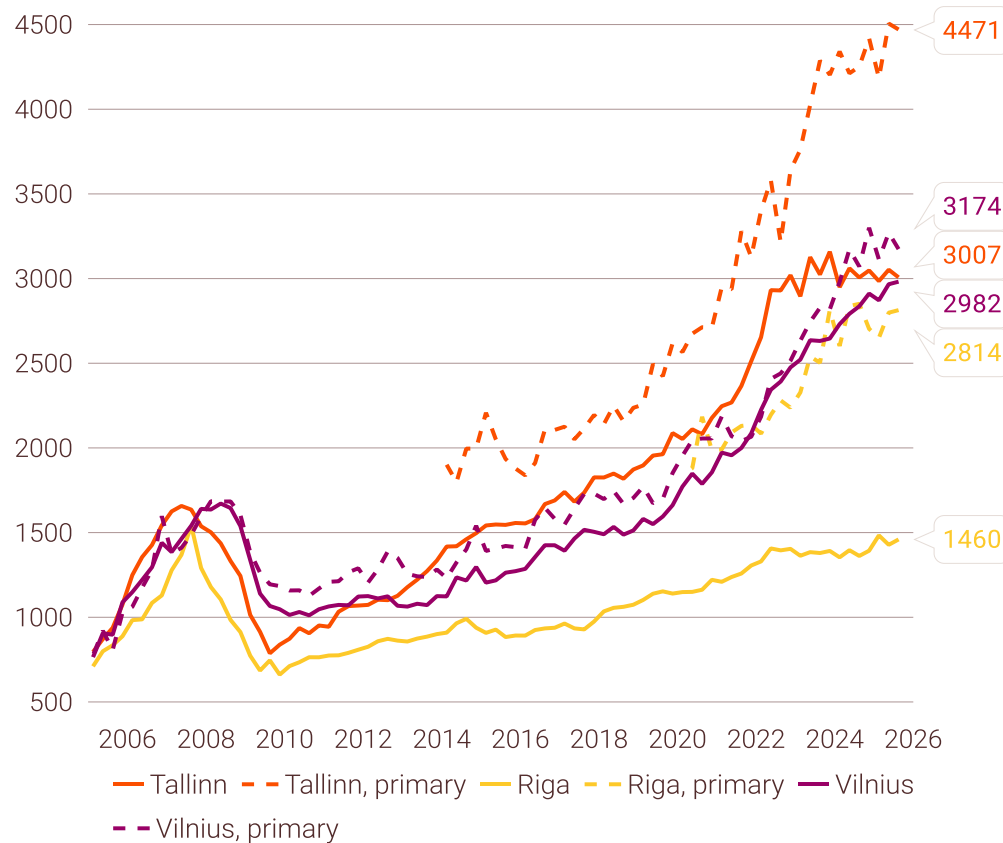
- The number of transactions stayed at the highest level since the end of 2021. Growth is increasingly driven by the secondary market, which accounted for around 70% of all sales. The primary market is also improving but still lags behind the secondary market, mainly due to lower affordability.
- With borrowing costs declining, affordability has continued to improve, but rising apartment prices are dampening the recovery. Buyers on average can afford to buy a 64 m²-sized apartment in Vilnius, only 1.7 m² more than in the previous quarter. Sluggish growth in affordability means buyers are often forced to choose smaller, older, or more distant apartments.
- The repeat-sales house price index shows that price growth in the capital picked up, reaching more than 11% in September. Prices in the secondary market have increased faster than in the primary market, where price growth is being contained by the large stock of unsold apartments carried over from the slowdown years.
- The possibility of withdrawing funds from the second pension pillar next year – an option expected to be used by many – will add fuel to an already-booming market. The Bank of Lithuania will lower the mortgage down payment requirement for first-time home buyers from 15% to 10% starting in August of 2026, which could further boost demand and influence price growth.

Wages still provide a notable boost to affordability

Average price developments differ across capitals

Average apartment price

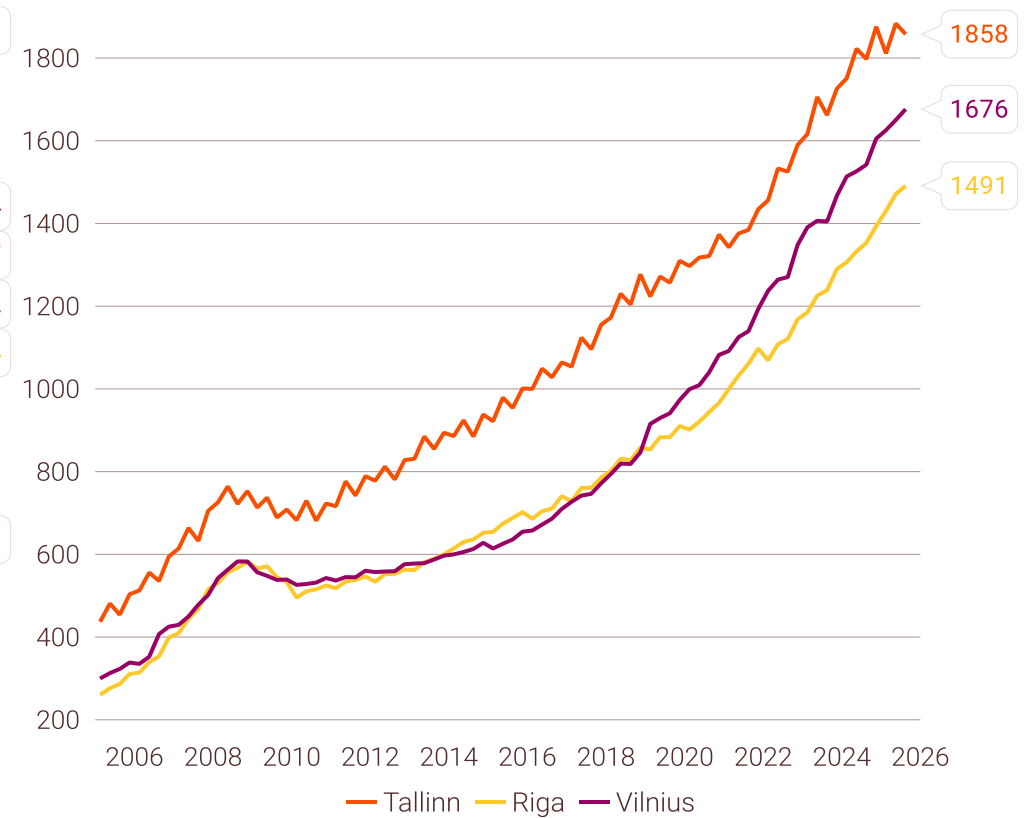
EUR/m²



Sources: Land Boards, Swedbank Research & Macrobond

Average monthly net wage*

EUR



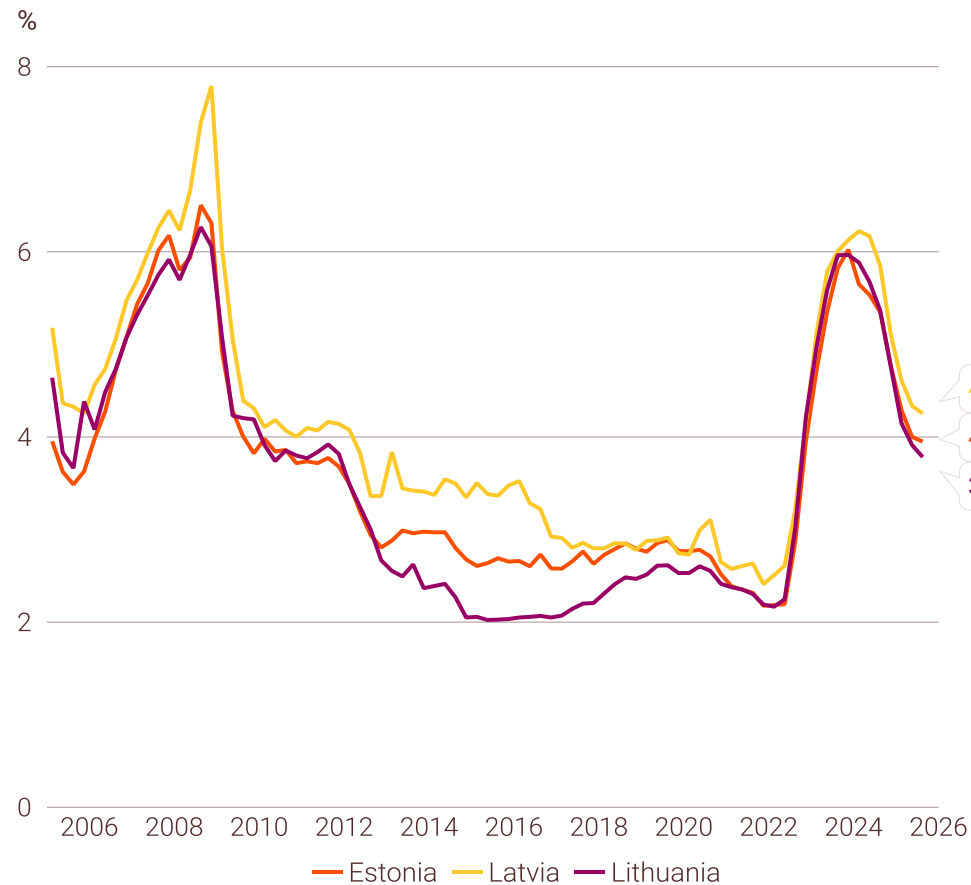
* An estimate for the last quarter

Sources: Swedbank Research & Macrobond

Interest rates nearing the low point

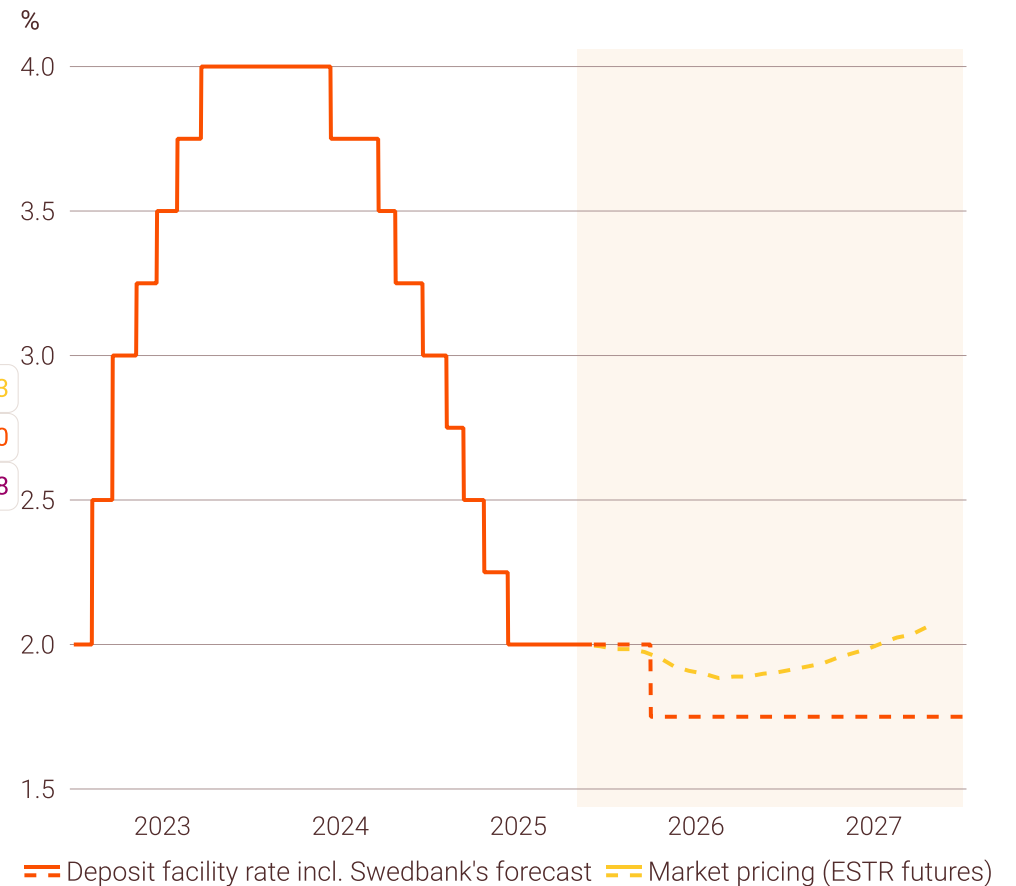
Swedbank forecasts one more rate cut by the ECB in March

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



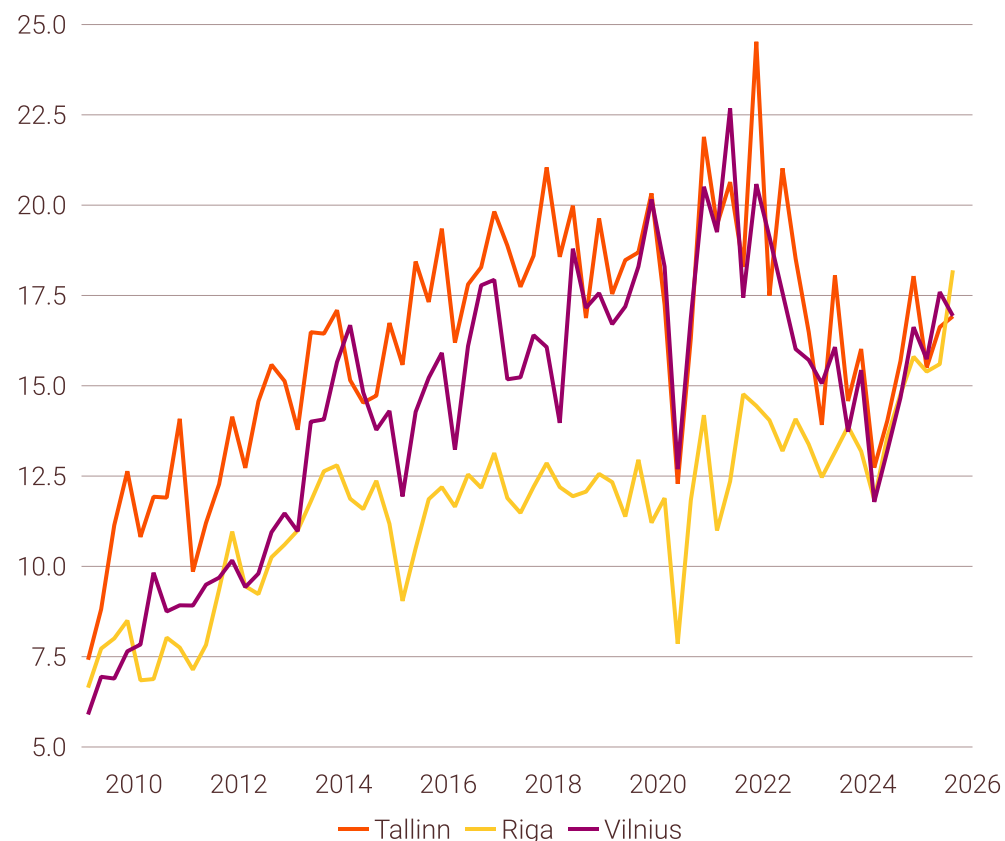
Sources: Swedbank Research & Macrobond

Market activity remains comparatively high

A sharp rise in consumer confidence may signal an improving outlook for households

Transaction activity

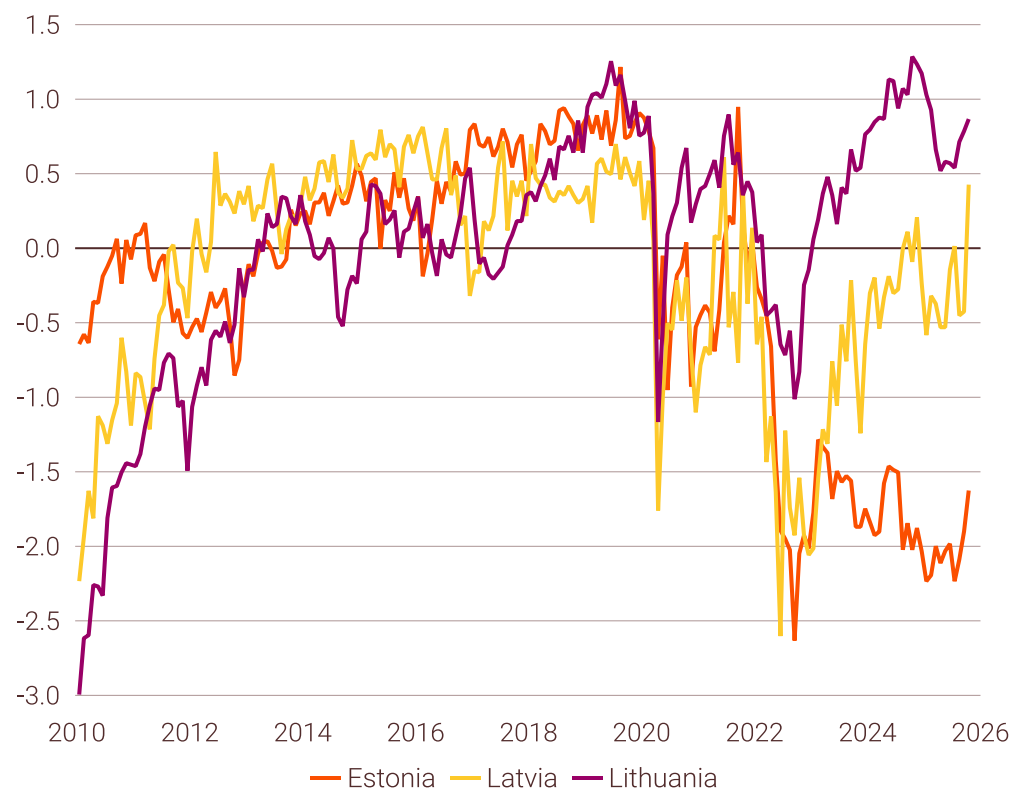
Transaction count per 10K residents, residential apartments



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardised, 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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