

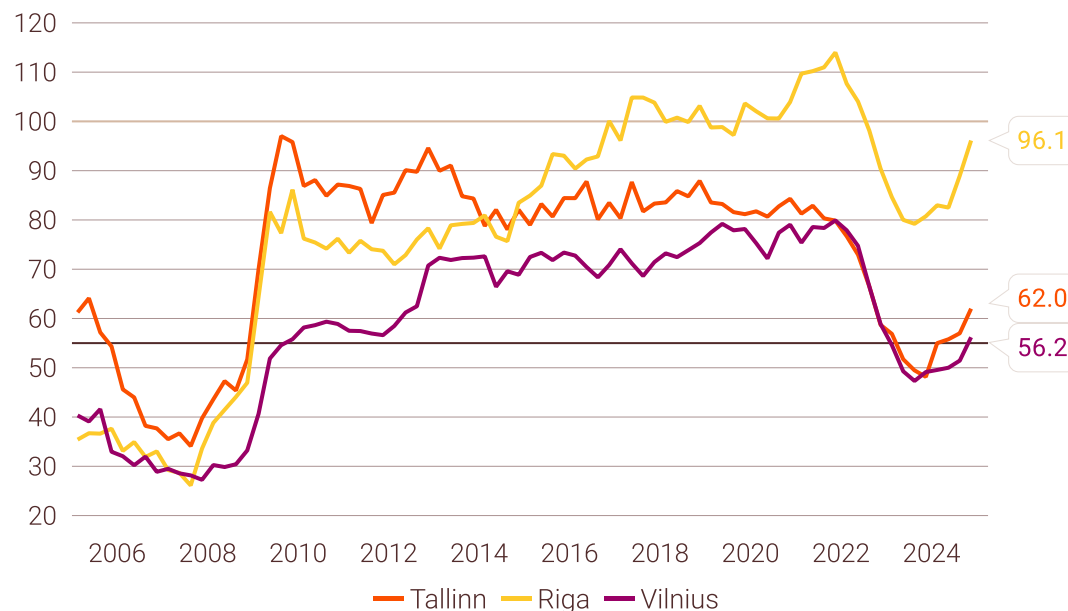
Baltic Housing Affordability: 2024 Q4

Continued improvement in affordability, yet still a long road ahead

- Housing affordability increased due to lower interest rates, as well as still-solid wage growth.
- Improving economic conditions should fuel market activity in 2025 and thereafter.

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

The year 2024 ended, and 2025 has started on a positive note for the Baltic housing markets. Housing markets benefitted from four ECB rate cuts last year, plus one more in January, resulting in a 1.25 pp decline altogether. Furthermore, wage growth remained strong and outpaced housing price increases. These factors became the key drivers of improved housing affordability across all Baltic capitals.

Increased affordability, and higher consumer confidence (in Latvia and Lithuania) boosted market activity. Swedbank forecasts suggest that all three Baltic economies will see strong wage growth and high employment this year, which should ensure that the housing market recovery continues.

We forecast four more ECB rate cuts this year, which will further improve housing affordability in all Baltic capitals. Mortgage refinancing activity is very high in Lithuania and Latvia, which will put even more downward pressure on average interest rates. Furthermore, rising net wages will continue to support affordability in Latvia and Lithuania. Yet, storm clouds, in the form of Donald Trump, are forming over our heads. Heightened geopolitical tensions could raise uncertainty for households, motivating them to postpone home purchase.

This time the appendix of the report also contains graphs offering an insight on data on Swedbank's new mortgage-takers.

Analysts

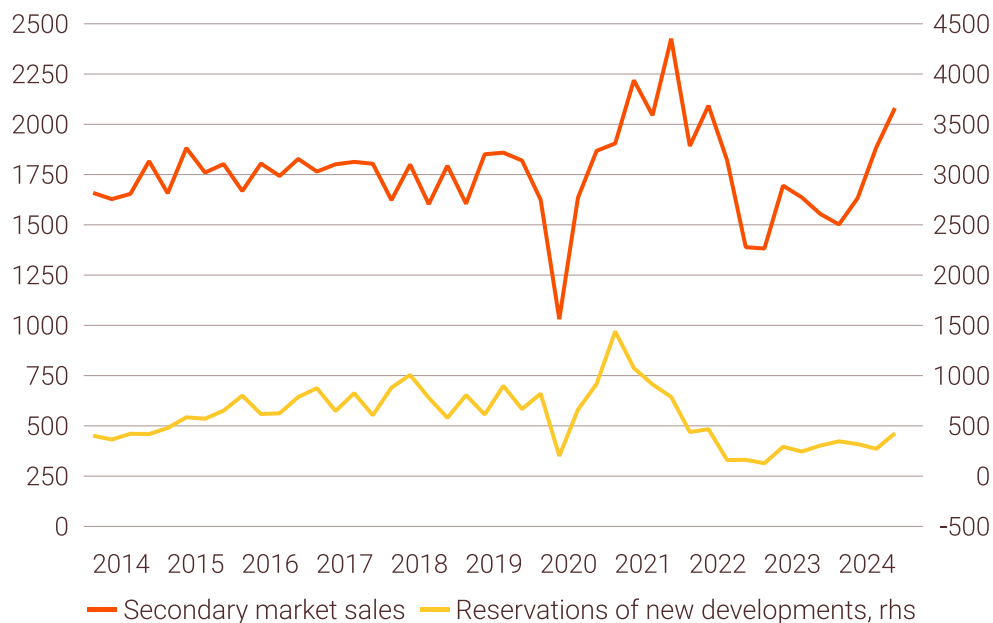
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Tallinn – activity has markedly increased in the secondary market

Primary market has seen only few signs of revival so far, but falling interest rates will help

Tallinn market activity

nr of apartments, quarterly

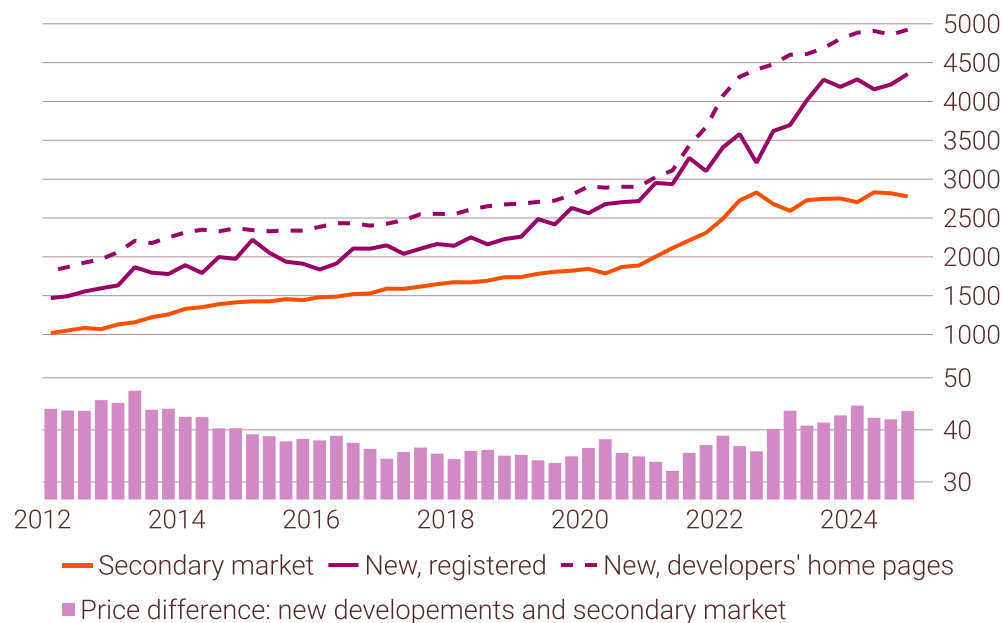


Sources: Swedbank Research & Macrobond

- Activity continued to improve in the fourth quarter on the back of falling interest rates and pent-up demand. The increase in demand is more visible in the secondary market, due to the more affordable price level. Sales in the secondary market surged above the long-term average at the end of last year. Reservations in the primary market started to show signs of revival, albeit still modest. Developers attracted more buyers in the final quarter of the year by introducing new projects to the market.
- The purchasing power of wages in the housing market improved last year, as over 7% net wage growth outpaced stagnant housing prices. Meanwhile, new developments were 44% more expensive than the secondary market. The price

Average apartment price in Tallinn

EUR/m2 (upper); % (lower)



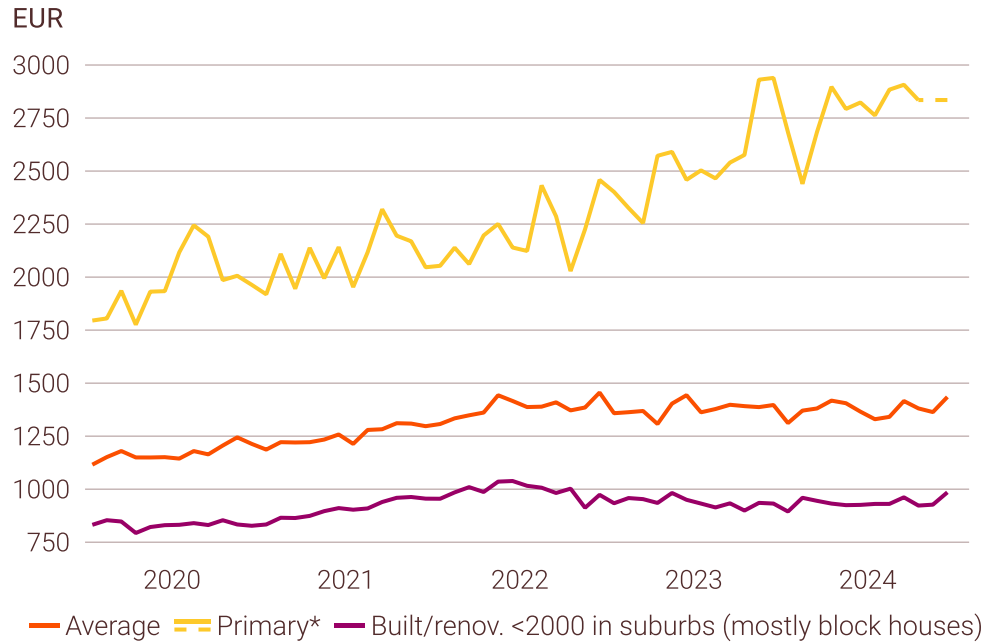
Sources: Swedbank Research & Macrobond

- difference of primary and secondary market apartments remains elevated. This can partly be explained by the larger share of higher-end apartments in the stock, as the high-interest-rate environment put the primary market out of reach for many middle-class families. Increasing VAT tax and the new defence tax are incentives to hold prices up, even though demand is below the long-term average.
- Although, the personal income tax increase and elevated inflation will decrease real net wages this year, we expect that falling interest rates will continue to support housing affordability and demand. The demand for new developments is coming out of the slump more slowly due to the higher price level; however, falling interest rates should also bring more buyers to the primary market.

Riga – solid improvement in affordability

Same tailwinds to continue this year

Prices of residential apartments in Riga

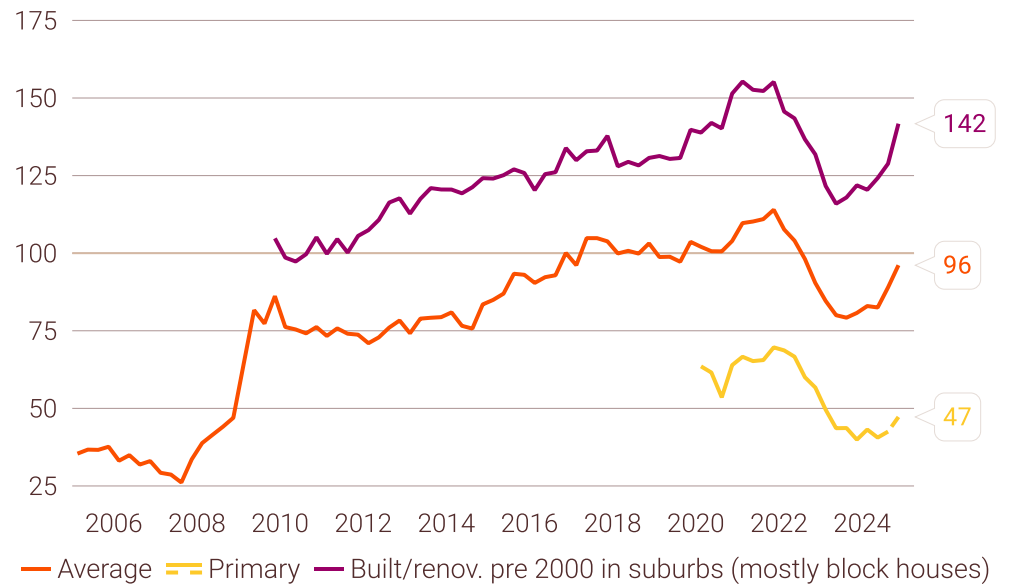


*Here and onwards Q4 value is based on October data only
Sources: Swedbank Research & Macrobond

- In the final quarter of 2024, winds were still blowing in favour of new homebuyers: the average apartment price was nearly the same as a year ago, interest rates were rapidly retreating, and wage growth remained high.
- Transaction volume in the fourth quarter soared to a level last seen in mid-2007. This might be a one-off or a result of pent-up demand paired with the improving financial conditions of households. Most of the demand was in the secondary market, though – the primary market was still struggling, with the stock of unsold flats increasing even further.
- Affordability increased both in the primary and the secondary market. However,

Housing affordability in Riga

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



Sources: Swedbank Research & Macrobond

the stark price difference between the two, results in a notable variation in the size of apartments that the average household can afford. In the fourth quarter Swedbank clients, on average, chose apartments measuring around 60 m². To afford an apartment in a primary market, the average household would need to settle for a flat that is about 13 m² smaller than that.

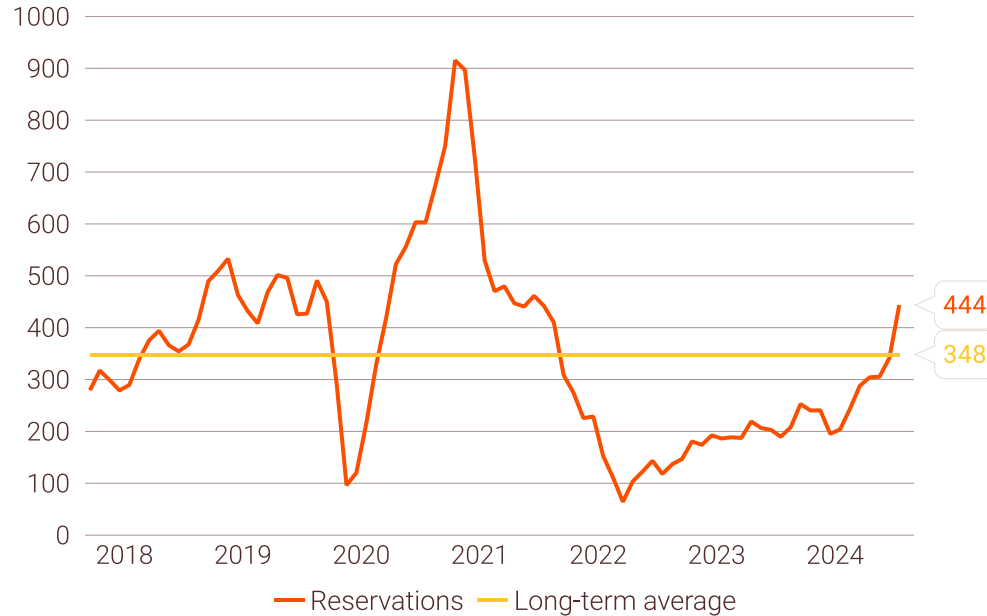
- Favourable conditions, such as the still-strong wage growth, falling interest rates, and negligible changes in the average apartment price, will continue to support housing market activity and the return of housing affordability.

Vilnius – market activity surging again, pushing up prices

Lower interest rates and strong wage growth fuel market optimism

Apartment reservations in the primary market

Apartments per month

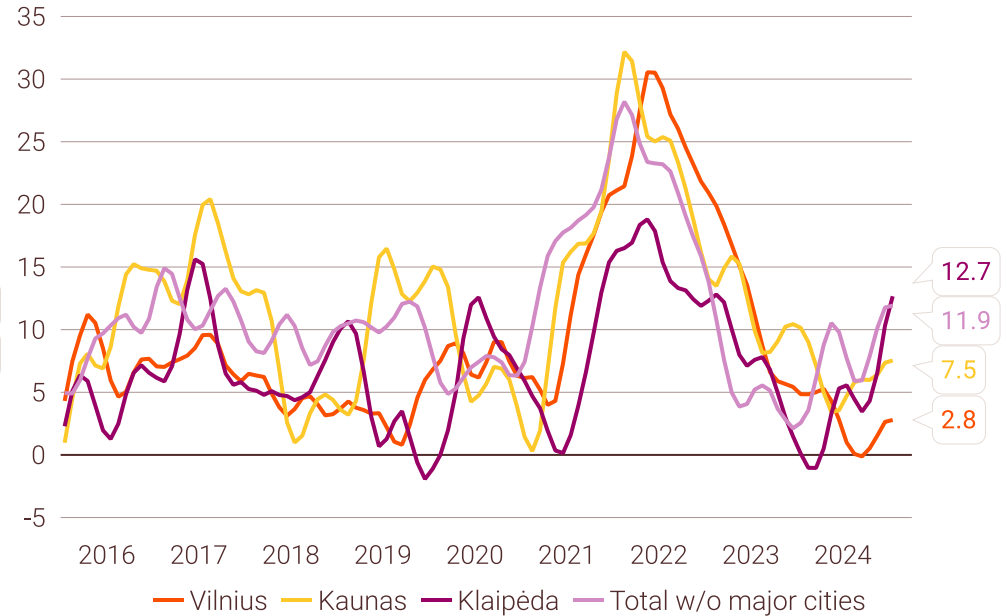


Sources: Inreal, Swedbank Research & Macrobond

- Lower interest rates and rapidly rising wages have awakened the housing market from a two-year slump. Apartment reservations in Vilnius's primary market have been booming since late last year and now exceed the long-term average.
- With borrowing costs declining and wage growth outpacing house prices, affordability has continued to improve. Buyers on average can afford to buy a 56.2 m²-sized apartment in Vilnius, more than 5 m² larger than in the previous quarter. With affordability improving, market activity is expected to accelerate even further this year.

Repeat sales house price index

y/y %, 1 quarter moving average



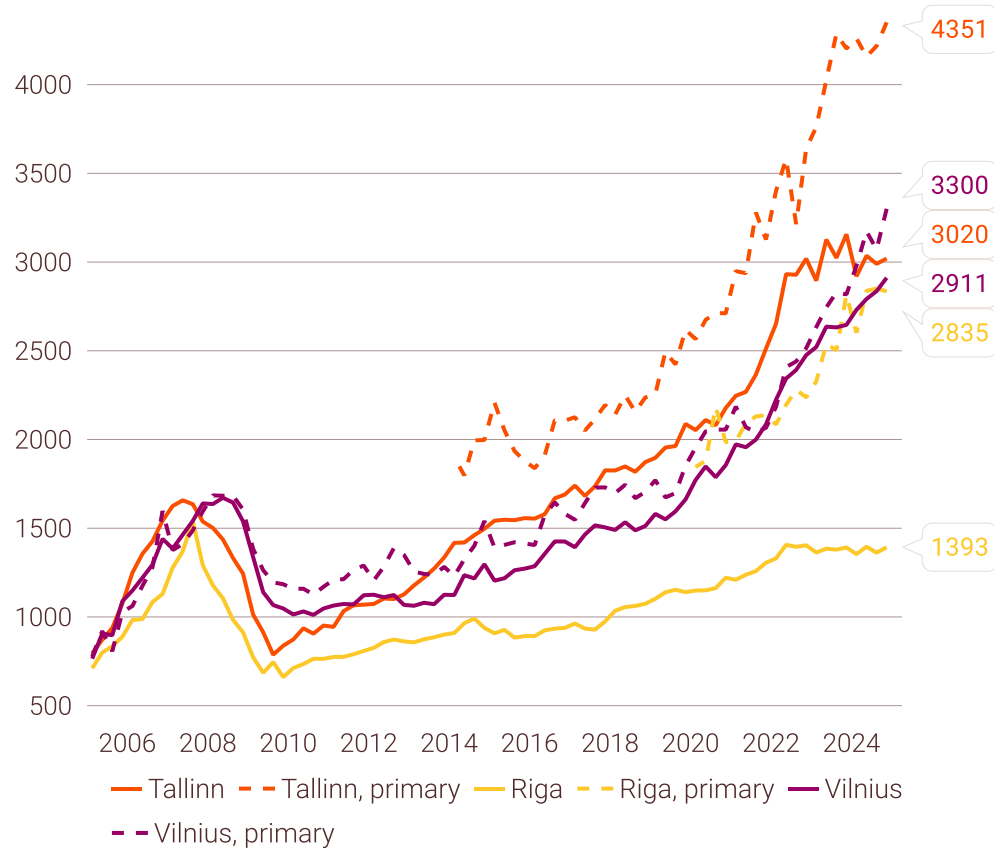
Sources: Swedbank Research & Macrobond

- The repeat sales house price index indicates a pickup in prices, especially outside the capital. Yet, annual price growth should not be out of control, as the surplus of unsold houses from the slowdown years is expected to limit price increases.
- The stock of unsold apartments in Vilnius remains at its highest level in seven years. Additionally, a 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 noticeably outpaced housing price growth in Tallinn and Riga In Vilnius, however, both went hand in hand

Average apartment price

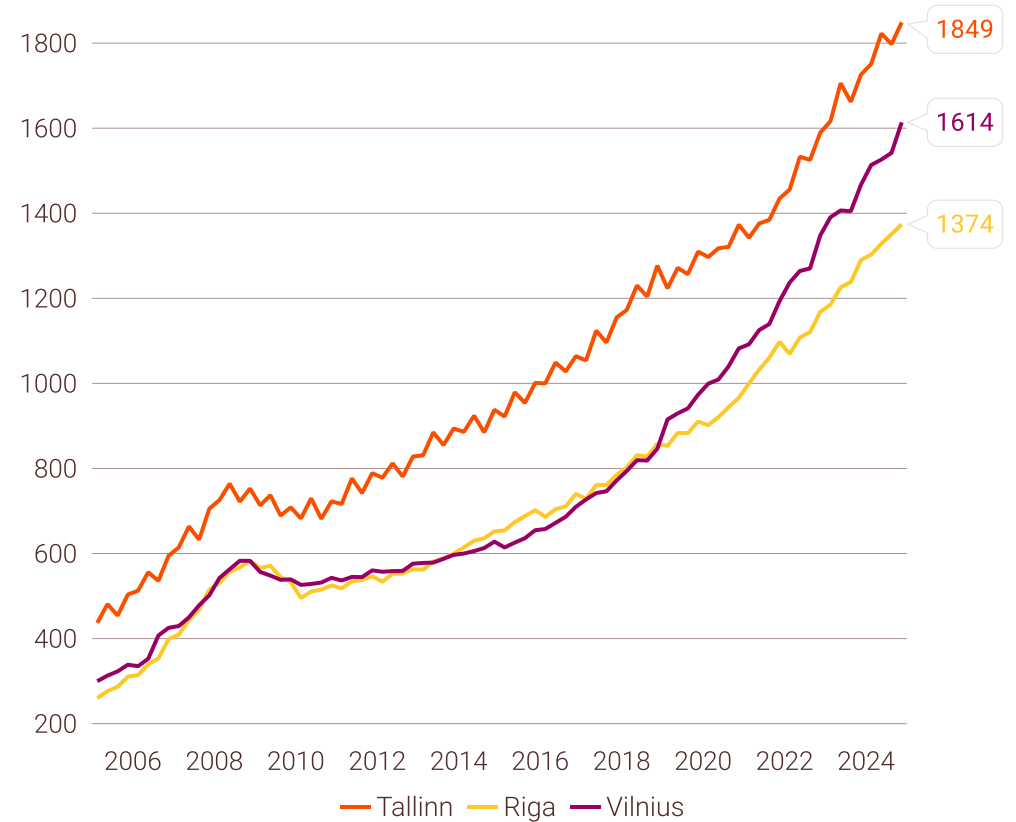
EUR/m2



Sources: Swedbank Research & Macrobond

Average monthly net wage*

EUR



* An estimate for the last quarter

Sources: Swedbank Research & Macrobond

Rates for new mortgages are falling swiftly

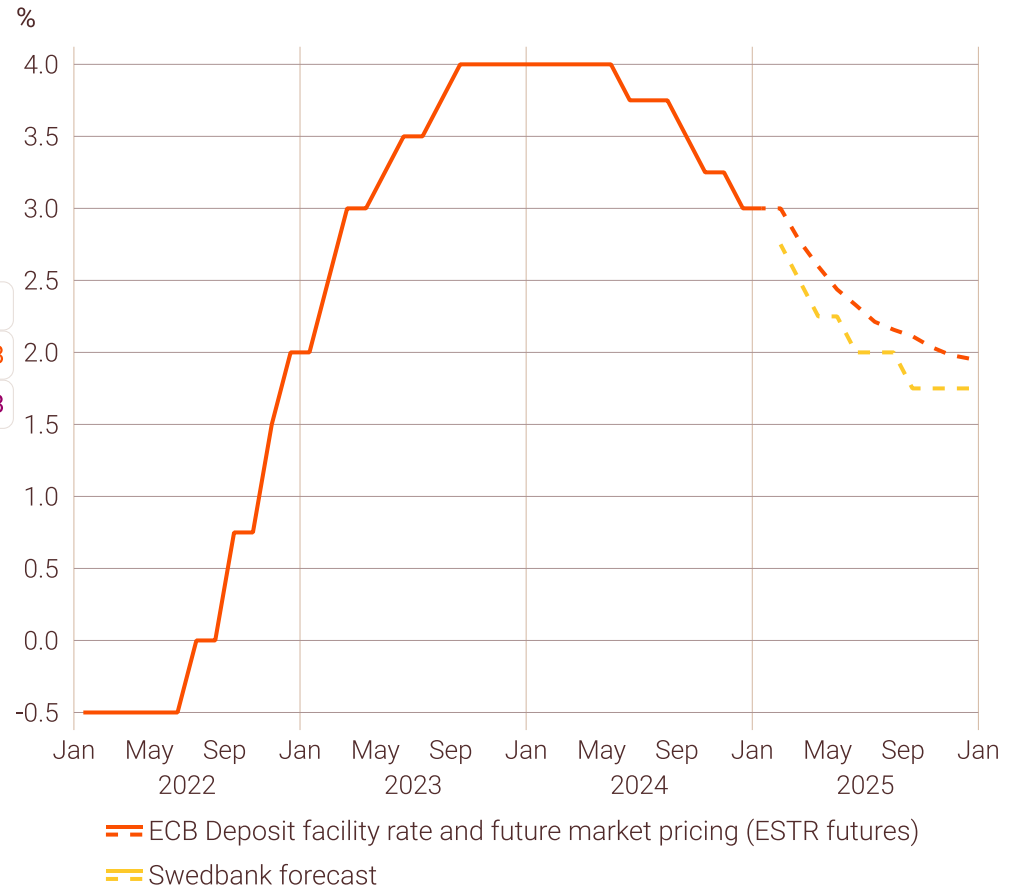
The ECB deposit rate is expected to reach 1.75% in the second half of this year

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate market expectations and forecasts



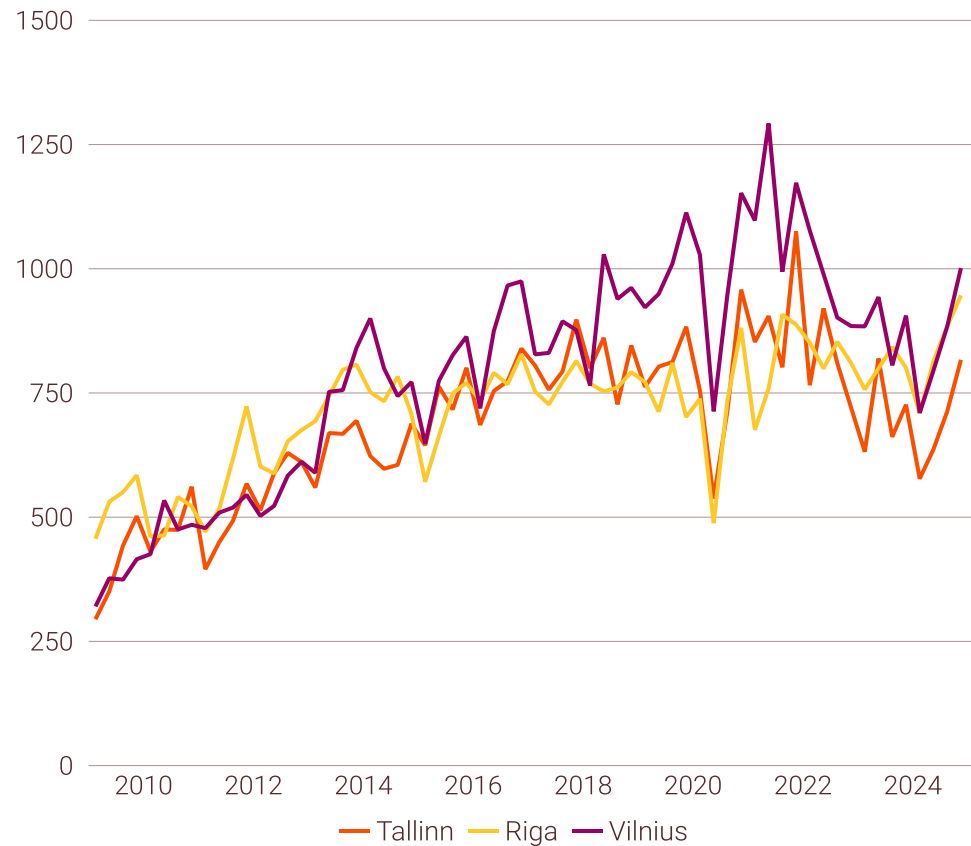
Sources: Swedbank Research & Macrobond

Market activity rebounded sharply

Notable divergence in consumer confidence

Apartment transactions

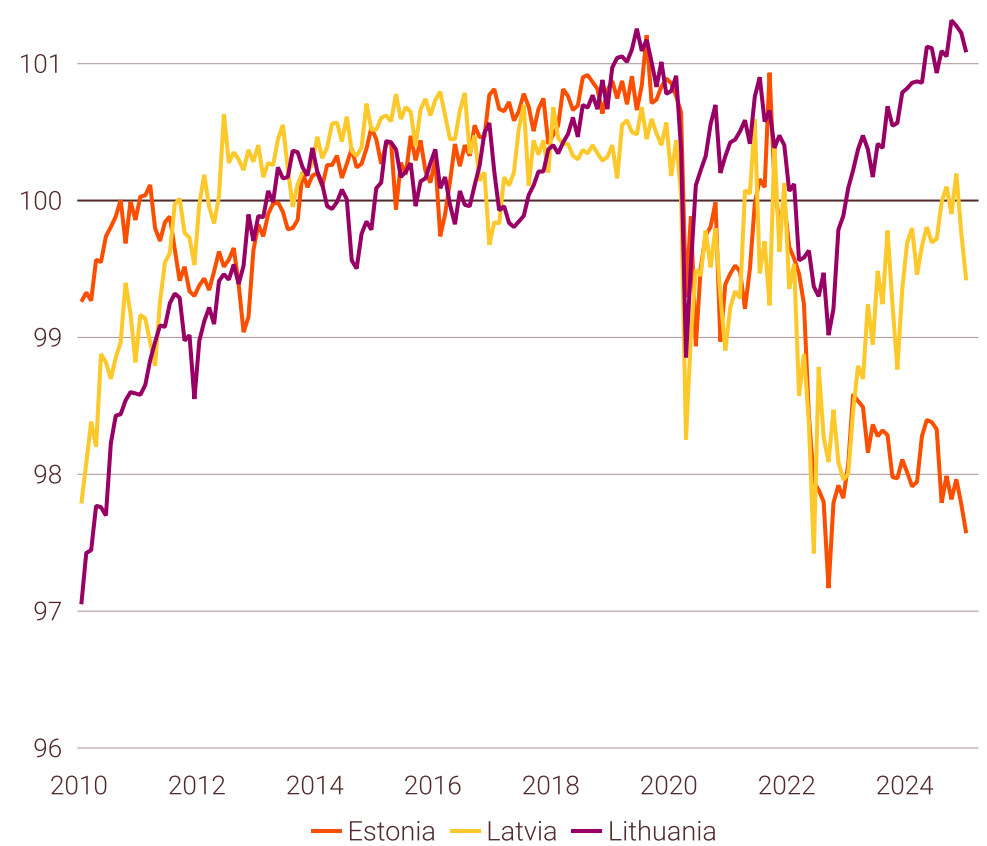
Number per month, quarterly average



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardized, 100 = long term average



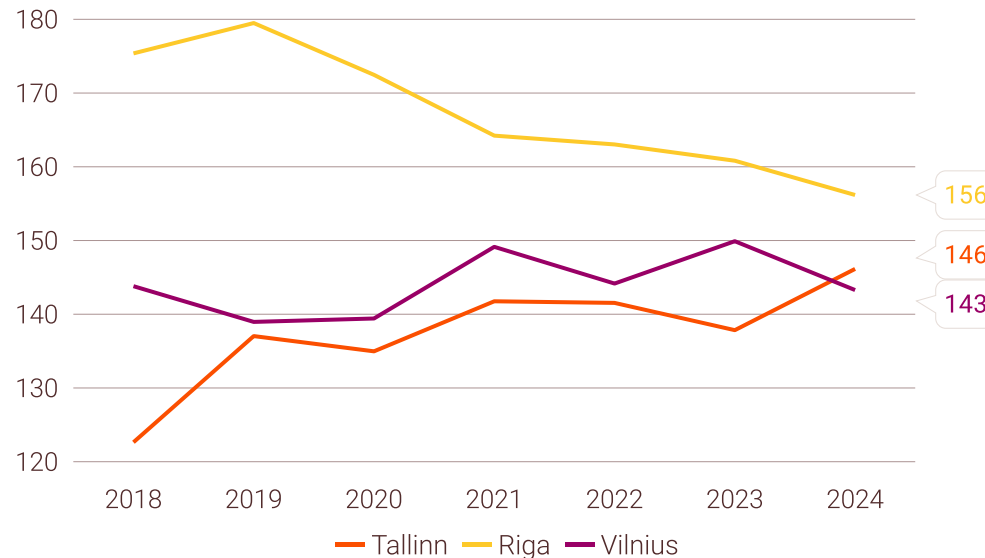
Sources: Swedbank Research & Macrobond

Salaries of new mortgage takers noticeably higher than capital averages

Debt-servicing costs – one-fifth of net wage in Riga, one-third in Tallinn and Vilnius

Wage of mortgage takers vs average net wage in capitals

Ratio of wage of mortgage takers at the time of issuance vs average wage in the Baltic capitals, apartments only, %

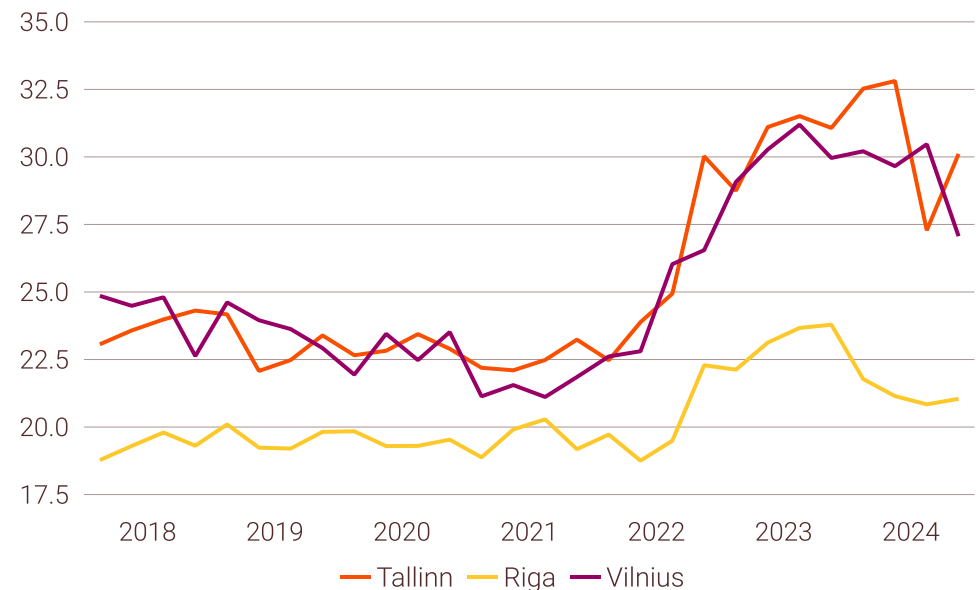


Note: single person contracts only, 6 month average wage
Sources: Swedbank client data & Macrobond

- Swedbank data for single-person mortgage contracts shows that wages of new mortgage takers have been consistently higher than the average net wage in the capitals. Currently, the wage of mortgage takers is around 1.4-1.5 times the average net wage in the capitals. The trends vary, though. In Riga, mortgage takers have historically been notably better-off than the average household, but over time the difference narrowed. In Tallinn, the trend seems to be the opposite. In 2018, mortgage takers' wages were only 20% higher, while in 2024 they were close to 50% higher than the average wage in Tallinn.

Average monthly mortgage payment to net wage ratio

For new mortgage takers at the time of issuance, apartments only, %



Note: here both single- and multiple-person contracts are included.
Sources: Swedbank client data & Macrobond

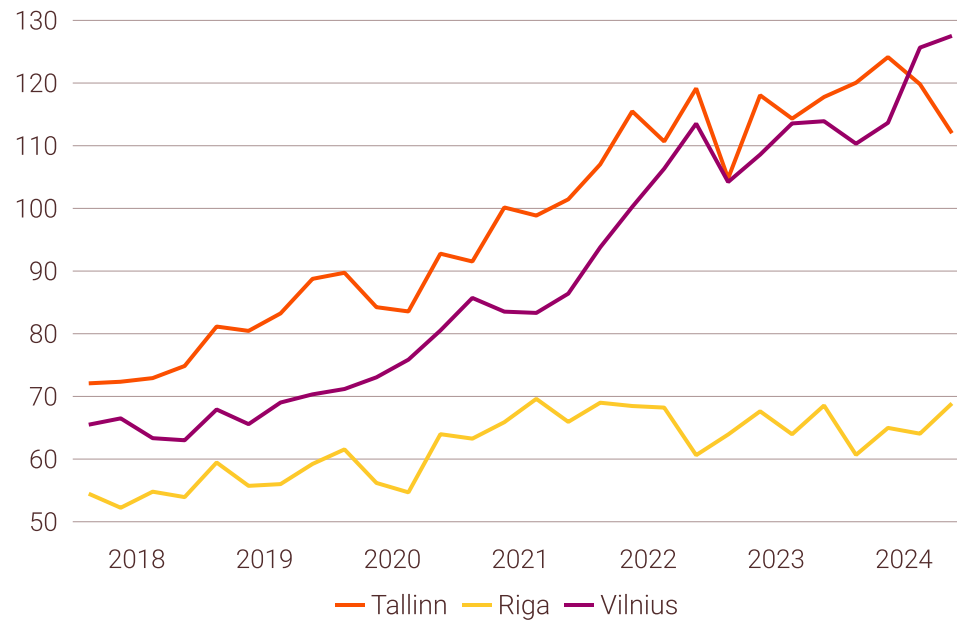
- The graph shows the ratio of the average mortgage-service payment to the borrower's net wage at the time of loan issuance (this is a slightly narrower approach than the debt service-to-income ratio). A lower value (preferably 30% or less) suggests that the household can manage its monthly mortgage payments more comfortably. Data indicate that the ratio increased significantly in recent years, especially in Tallinn and Vilnius, due to high interest rates. Nevertheless, even during this period, the initial mortgage payment remained below one-third of households' wage income.

Average mortgage amount steadily growing in Tallinn and Vilnius

Average down payment ratio is much higher in Tallinn than in other capitals

Average issued amount

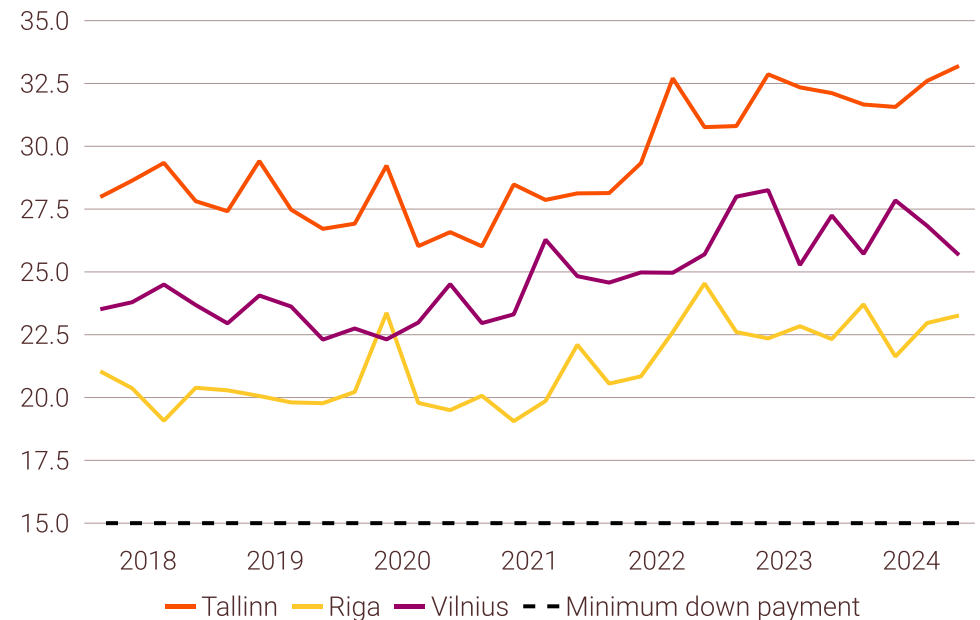
th. EUR, apartments only



Sources: Swedbank client data & Macrobond

Average down payment amount

%, apartments only



Sources: Swedbank client data & Macrobond

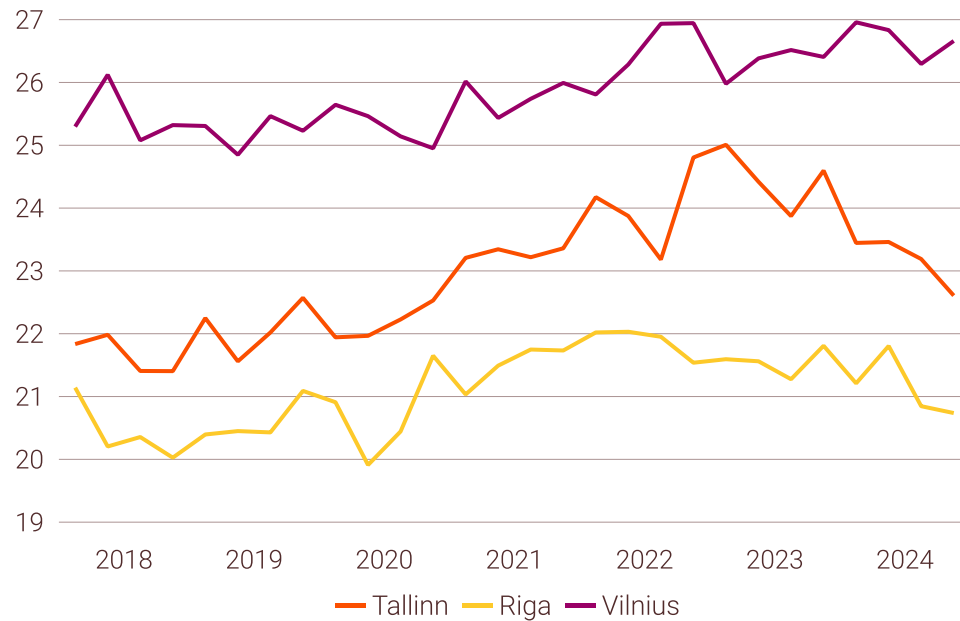
- With housing prices rising quickly, the average issued mortgage amount has been steadily increasing in Vilnius and Tallinn, surpassing EUR 110 000. In contrast, the issued amount remains almost twice as low in Riga due to the larger share of Soviet-era apartments in total transactions and, thus, significantly lower property prices. Furthermore, with housing affordability falling, there has been a switch to older (and less expensive) apartments over the last three years; this structural change has also kept a lid on the average issued mortgage amounts in Riga.
- The average down payment, as a percentage of total housing value, is the highest in Tallinn and lowest in Riga, but all capitals have seen an increase in the past few years. A common finding for all capitals is that the first down payment is noticeably above the minimum payment of 15%. A multitude of factors explain the differences between the Baltics, such as the average age of applicants, income, savings rate. Riga's comparatively low down payment can be partially attributed to a sizeable share of mortgages with state guarantee.

New mortgage contract length longest in Vilnius

Vilnius also stands out, given the client preference to have joint ownership

Average mortgage contract length

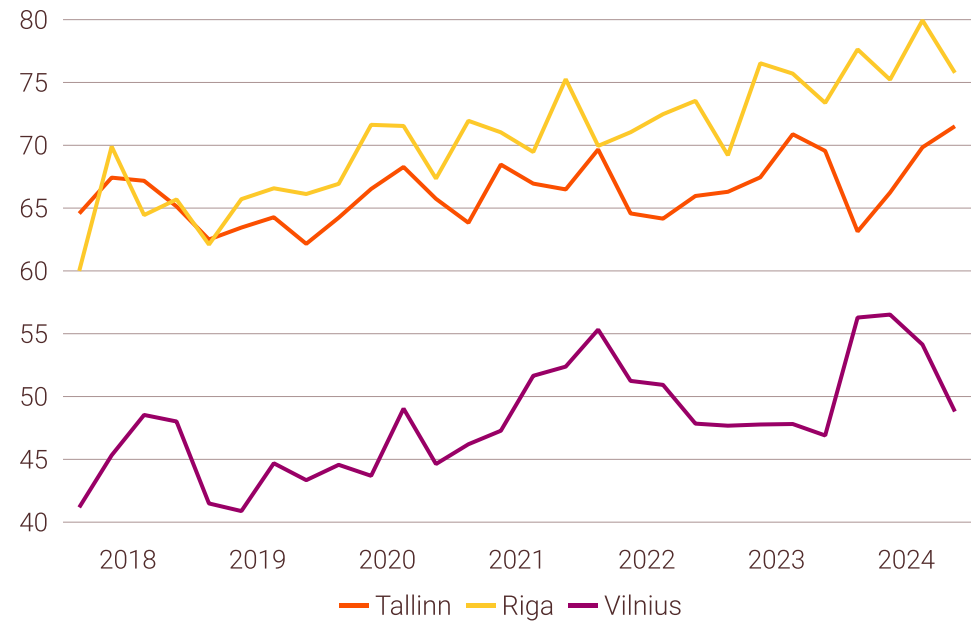
New mortgages, apartments only, years



Sources: Swedbank client data & Macrobond

Share of mortgage contracts owned by 1 person

New mortgages, apartments only, %



Sources: Swedbank client data & Macrobond

- The new contract length remains the shortest in Riga, averaging around 21 years; in Tallinn, it is about 2 years longer. Whereas in Vilnius, the average contract length is inching closer to the maximum contract length of 30 years. This may be because the average age of mortgage takers in Vilnius is also the lowest: younger people often need to take out mortgages at the maximum term, as the income level at the beginning of their careers is lower in general. In Riga, where average prices and issued loan amounts are lower, the average contract length is also the lowest among the Baltic capitals.
- The share of single-person mortgage contracts has been trending upwards. In Riga and Tallinn, this is by far the most common approach in these cities. Vilnius stands out, with around half of mortgages taken by two borrowers. People in Vilnius tend to take out mortgages at a younger age. Moreover, married couples are generally required to take a mortgage together in Lithuania.

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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