HYPO HOUSING MARKET REVIEW

4Q2025 Publication: December 2025

Keys Are Finding New Owners More Often

- **The housing market is accelerating gently, with buffers in place, but one hand still on the handbrake.** Household savings and lower interest rates support purchase decisions, and the revival of transactions continues as we head into next year, despite the foggy weather. Some buyers remain cautious as economic news and geopolitical fears keep plans moderate. Many households could already afford a purchase, but rising unemployment and challenges in public finances do not yet encourage larger investments. **Housing transactions are growing and will reach pre-crisis levels next year, in 2026.**

- **The pandemic accelerated number of first-time home buyers and lowered their age**. During the COVID years, the number of first-time buyers surged to its highest level in over a decade, dropping the average age from just under 30 to 29 years. Falling prices created buying opportunities, and in the last year of transfer tax exemption in 2023, the number of first-time buyers declined less than overall market activity. **Sharply reduced real prices continue to support first-time buyers, even though the extension of transfer tax to first homes a couple of years ago partly dampens buying enthusiasm.**

- **In 2025, housing prices will remain negative for the third consecutive year, but population growth, historically low new construction, and stabilizing interest rates are already laying the groundwork for gradual price increases in 2026.** Sales inventories are being cleared as urban growth once again stretches toward record levels last seen decades ago. However, the price turnaround is moderated by cuts to housing benefits, which increase shared living among students. Also, larger family size of foreign-language households raises occupancy rates but shifts demand toward functional family homes – **growth of number of households now lags behind population growth, which affects housing demand.**

Housing Price Forecast
2025:-1.8%
2026: 1.0%

Capital Region Prices
2025: -1.5%
2026: 1.5%

- **Psychology has overtaken financial mathematics in consumer behavior. The fear of a sales loss weighs too heavily on minds, even though the current cycle would allow movers to save significantly on the price difference.** A nominal price drop since the time of purchase halves the willingness to sell, locking families into unsuitable homes, slowing transactions, and weakening mobility in the labor market. Nevertheless, new doors are being opened more frequently as sellers are finally coming down on asking prices. **Old apartments are increasingly listed for sale, offering good opportunities for buyers.**

- **The past year brought two dubious records for the construction sector, as housing starts and completions fell to their lowest levels in nearly 60 years.** Construction sites are quietest in a generation: new projects are still being started only sparcely. At the same time, the number of completed homes will remain low in the coming years, creating upward pressure on housing prices. **The construction industry will recover only in the wake of an economic upturn, as rising housing prices restore builders' profitability.**

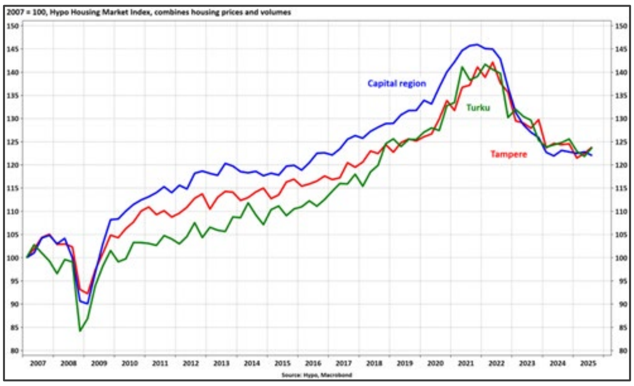
- **Interest rates are settling near two percent**. Long-term rates now sit above short-term rates, signaling stabilization. Eurozone growth is gradually improving, and inflation has fallen close to the two-percent target level. Even an imperfect peace in Ukraine would strengthen confidence, while a prolonged conflict would slow investments and sustain risk premiums. **So far, falling loan rates have been channeled into savings accounts or loan repayments, which will enable people moving homes and the economy to turn around when uncertainty eases.**

JUHO KESKINEN

Observation Turns into Action in the Housing Market

The Finnish housing market continues to recover, albeit with sputtering. Finland's economy is under close watch, and consumer confidence is faltering amid zero-growth conditions, even though households own finances are generally viewed acceptable. Diligent saving has grown household buffers to be used at the right moment to make purchase decisions. Lower interest rates, improving purchasing power, and deflation for mortgage holders provide support for household finances, but news from home and abroad keep the consumer's hand still on the handbrake. Cyclically the trend is nevertheless pointing northeast. The labor market is better than it looks as strong immigration is currently raising the unemployment rate with companies postponing hiring amid uncertainty in trade and growth prospects. Having weathered recent years relatively unscathed, many households remain in observation mode, even when the barrier to buying a home is not their own financial situation. Housing prices will remain in negative territory in 2025 for the third consecutive year. However, population growth, including working-age population growth, creates demand for housing, while the slump in construction is now visible in historically low numbers of completed homes. This year will break two dubious records, as new housing starts and completions both fall to their lowest levels in nearly 60 years of statistical history.

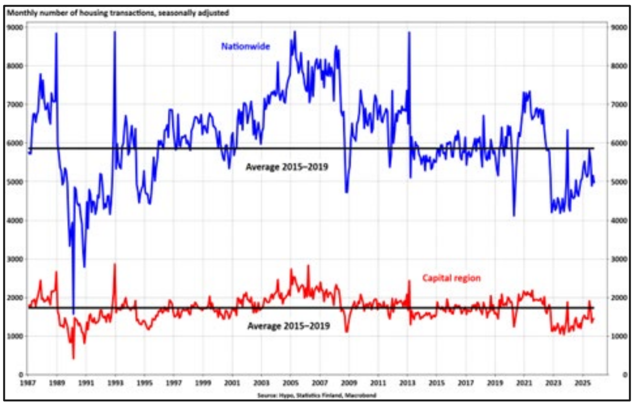
Hypo indexes in a tentative mood



Hypo indexes predicting housing price trends remain stagnant. Although housing transactions have steadily improved nationwide for two years, activity is still about 10% weaker than before the COVID crisis.

During the summer, the market nearly reached the average transaction level of 2015–2019, but in autumn it slipped back below that benchmark. Among major cities, Vantaa remains the weakest performer, with transaction volumes over 40% lower compared to the start of the pandemic. Comparing July–September sales to the same period in 2019, the Helsinki metropolitan area and Turku are down by 15%, and Tampere by 5%, while Northern Finland and Oulu stand out as the only bright spots in terms of activity. The direction of the market is positive, but the level is still insufficient to clear the growing sales inventory, which has expanded further as owners of older apartments list their properties more actively. Despite the flat or slightly declining price trend, this is also a good sign of market revival – sellers are finally coming down on asking prices, and properties are changing hands more frequently.

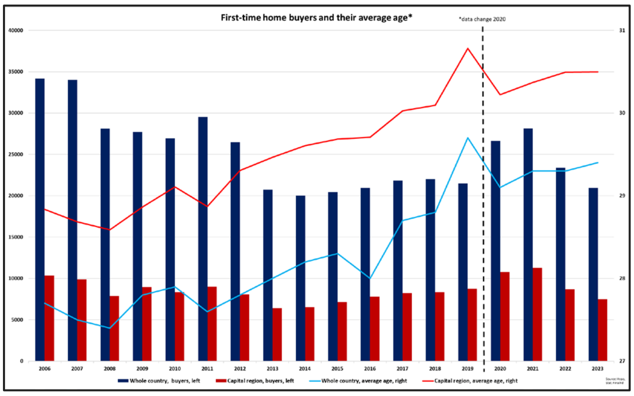
Transaction volumes are struggling back to their feet



Detached house transactions have picked up, as have older apartment sales, for nearly two years. Sales volumes are still about 15% below the pre-COVID pace, but now only 8% below the 2015-2019 average. 2025 is expected to be more active than the previous two years, although regional differences remain significant. While prices have held quite well in the Helsinki metropolitan area and major cities for two years, nationwide prices have been declining for three consecutive years. In Eastern Finland, prices have dropped by a quarter compared to pre-COVID levels, and in Western Finland by more than 15%.

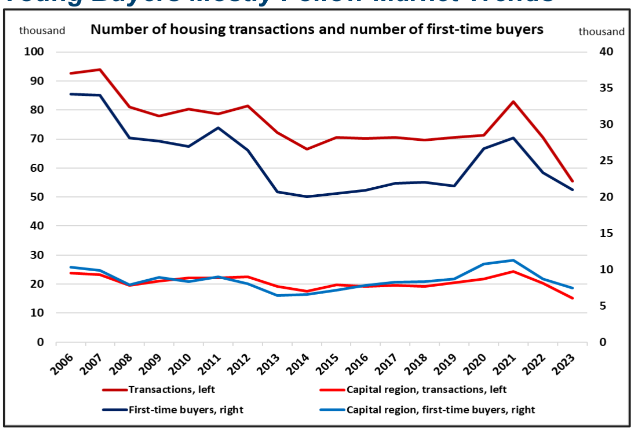
COVID Encouraged First-Time Home Buyers

First-time buyers were younger during Covid



The enthusiasm of first-time buyers seems to follow overall market trends, as the COVID crisis pushed the number of first-home buyers to its highest level in ten years. At the same time, the average age of first-home buyers in the Helsinki metropolitan area dipped for the first time since 2011. Statistics Finland's calculation changed slightly from the beginning of 2020, but the new time series still credibly reflects developments over the past four years, as the entire series is based on transfer tax data from the Tax Administration. Due to the transfer tax reform implemented at the turn of 2023–2024, it is unfortunately no longer possible to separate first-home buyers from the data. Extending the tax to first homes has most likely postponed purchase decision even further, although falling housing prices, especially real prices, offer young buyers the best opportunity to buy, also in the Helsinki region, since the financial crisis. In fact, the number of first-home buyers declined less than overall housing transactions in 2023, as the exemption from transfer tax was still in effect and prices had already fallen significantly. The supply of small apartments suitable for first-time buyers also increased as investor demand receded.

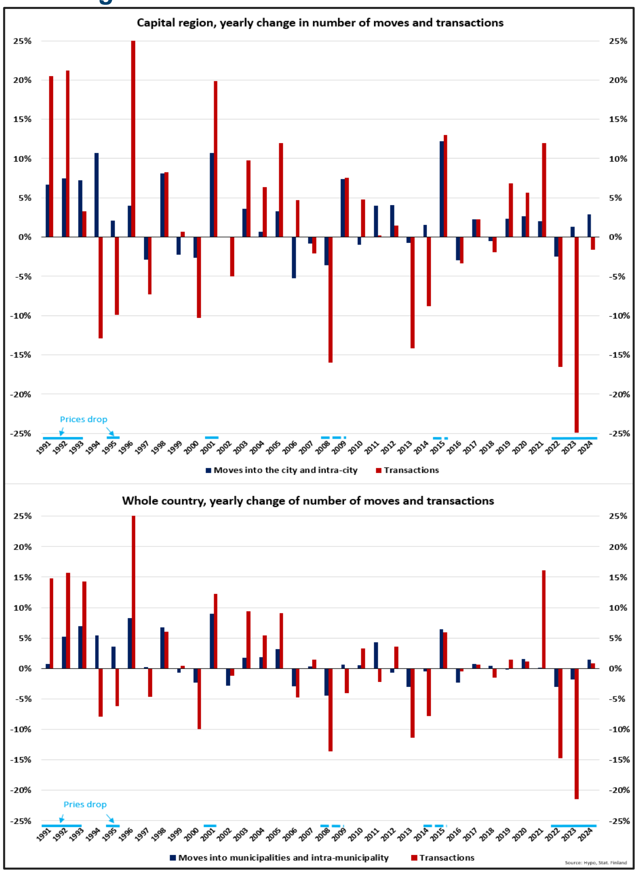
Young Buyers Mostly Follow Market Trends



Every other first home is still purchased in the growth triangle, and more than 1/3 in the Helsinki metropolitan area. Tampere accounts for just under 8% and Turku 5% of first-time home buyers purchases. Three out of four first homes are located in the 15 most popular municipalities for first-time buyers.

Loss Hurts Hard, Gain Comforts Little

Avoiding Loss Visible in Sales and Moves



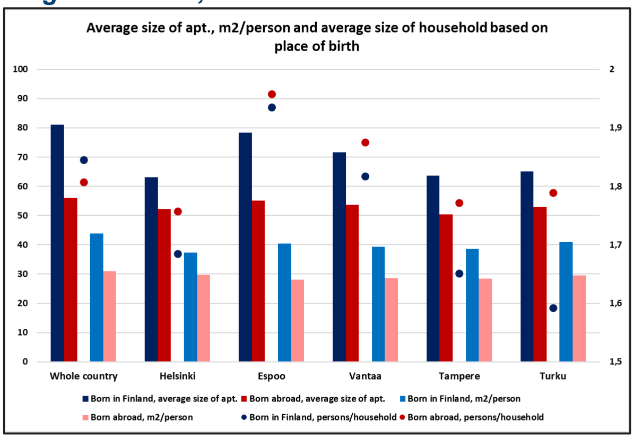
The decline in housing prices in growth cities significantly reduces homeowners' willingness to sell, and thus their willingness to move. Recent research* shows that when the nominal price is at a loss, the likelihood of selling drops by more than 50% compared to a situation where the sale price would be at a gain. The threat of loss slows both sales and moves, but the effect is stronger on selling than moving. Owners threatened by a loss often move without selling their old home, leaving it as a rental. Renting becomes a way to avoid realizing a nominal loss. Loss aversion affects moving especially strongly if the current home was purchased only a few years ago (purchase price is fresh in mind) or if the mortgage is large relative to the home's value.

Expected loss also reduces interregional moves. This means people get more easily “stuck” in homes and locations even when moving would make sense for work or life circumstances, they could save money on the price difference, or deduct losses on taxes. Psychology thus guides buyers more than pure math, as those seeking a larger home usually save on the price difference when prices have fallen. Wear and tear and general inflation are easily forgotten. The chart above shows annual changes in housing transactions for the Helsinki region and nationwide compared to annual changes in moves. In an upward trend in transactions, moves increase too, though less than sales. Conversely, when transactions decline, moves decrease much less.

Avoiding nominal loss can therefore cause both housing stock and labor force misallocation – families don’t live in homes most suited to them, and labor isn’t where it’s most needed. A study in the Netherlands** finds strong evidence of the impact of loss aversion, but only limited and inconsistent evidence that negative equity alone locks households in place. There, the effect of negative equity was twofold: those moderately underwater move the least, but those deeply underwater – especially with significant savings – are the most mobile. Mobility is also mostly voluntary, not forced.

Population Grows, But Prices Only Inch Up?

Larger Families, More Crowded Homes

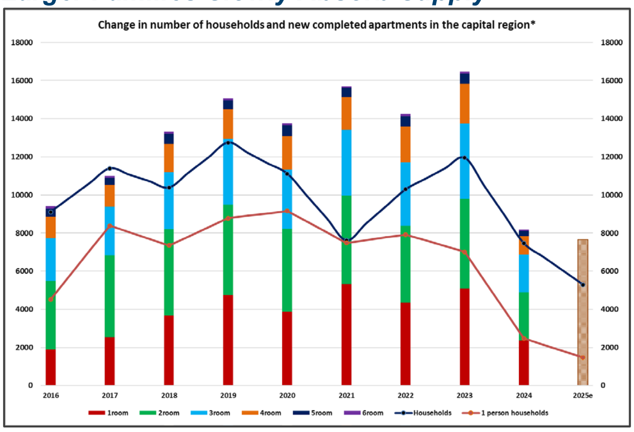


One explanation for the slow price turnaround in growth areas lies in demographics. Growth across the country and also in major cities relies increasingly on immigration. Foreign-language population lives in smaller homes, yet family sizes are larger. Nationwide, family size for those born in Finland are actually bigger than those formed by people born abroad, but in the largest cities, the picture reverses. Among the five biggest cities, the gap in family size is greatest in Turku, where Finnish-born families are even smaller than in the Helsinki region. One reason may be the higher share of second- or third-generation immigrants in the capital region, as immigration is a relatively newer phenomenon in Tampere and Turku.

Demand among households with a migration background for more spacious living will materialize as incomes, careers, and integration progress. Ensuring sufficient, adequately sized, and diverse housing construction is crucial now and in the future. Otherwise, the risk is that immigrants remain permanently in small, cramped apartments on the outskirts of major cities, reinforcing segregation and weakening integration prospects. Construction companies have already signaled plans to build entire housing companies without studios, and also statistics show a gradual increase in the average size of new apartments.

Price recovery is thus slowed by the shift in demand profile and also by the impact of growing household size on the number of homes needed in cities. Immigration initially drives demand mainly for rental housing, but not for the smallest studios. Both housing investors and homebuyers increasingly seek slightly larger apartments, even though small units are still needed in the most desirable, land-scarce areas where prices remain highest.

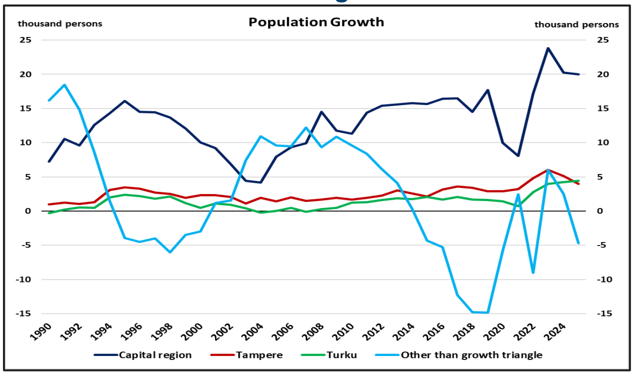
Larger Families Slowly Absorb Supply



Population growth records are being broken again in 2025, as growth in Helsinki, according to preliminary data, climbs well above 10,000, its highest level since the 1960s. This year, Helsinki also stands out from other major cities with domestic migration gains, which now exceed even the population gains from immigration. Nevertheless, the share of foreign-

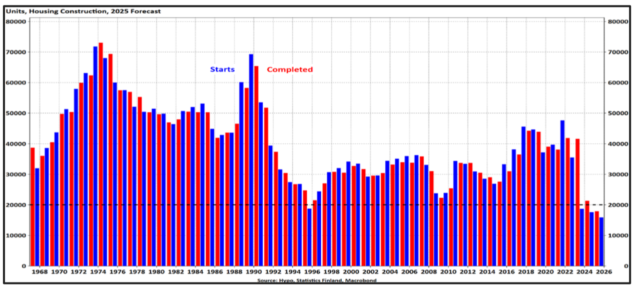
background residents remains significant also in domestic migration. At the same time, the number of households needing new homes has grown surprisingly little in the Helsinki region. Changes to housing benefits encourage students, in particular, to share apartments, meaning strong population growth no longer translates directly into housing demand as before. *Figures show forecasts for 2025.

Growth Records Broken Again in Cities



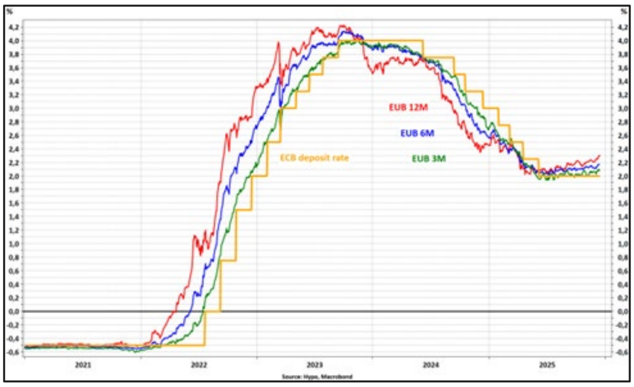
Finland's fastest-growing population segment lives in households with more than one person, and demand is focused on apartments larger than studios and small one-bedroom apartments. However, during 2018-2023, a large number of small apartments were built in the Helsinki metropolitan area, in total over 20,000 more than the increase in the number of households. In fact, even last year, slightly more apartments were completed than the number of new households formed. Since the average household size in the growing population is larger, and housing benefits have also been adjusted, the growth in the number of households in the Helsinki region will not match the number of completed apartments in 2025 either, delaying the construction sector's recovery to a later stage.

Housing Starts and Completions at a 60-Year Low



Next year will not yet bring full speed to construction sites, but strengthening demand, clearly lower interest rates, and limited supply will gradually turn the sector upward. The government's cuts in interest subsidized construction loans is justified in an improving economic climate, even though it slows construction in the short term. The waning demand for small apartments is already visible in construction companies' projects: the share of studios is shrinking, the average size of new apartments is increasing, and the investor-driven boom is over. In the longer term, growing demand, clear underproduction, and rising prices will push construction back onto a growth path, especially in growth centers, but the sector will recover fully only after the broader economy has already turned to growth.

Rate Cuts Ultimately Totaled Eight



Interest rate cuts ended in the summer, after eight cuts were made during the preceding year. Before that, there had been ten hikes over a little more than a year. Growth expectations in the euro area have edged up slightly, inflation is just above the target, and consumer confidence has recovered from its plunge at the start of the war, which is reflected now in interest rate expectations stabilizing around two percent. Longer Euribor rates have been above shorter ones since early summer, signaling a steady level near two percent. A lot of uncertainty surrounding peace negotiations in Ukraine still remains, but some progress toward compromise has been made. Achieving peace and lifting sanctions would support a return of confidence and economic growth, partly due to potential reconstruction. Inflationary pressure would ease for energy prices, though building materials might see increases. The most challenging scenario would be an economic "black hole," where spending rises, security remains unclear, and Europe's investment environment becomes fragile. Expectations of an imperfect compromise are already largely priced in, so an interest rate level of about two percent remains a reasonable minimum guideline for mortgage holders also next year.

Hypo’s view on the housing market

1. *Housing market growth will turn into price increases next year, even though uncertainty still lingers*
2. *Older apartments now flood the listings – sales times will shorten next year*
3. *Psychology still drives buying decisions, but falling prices alongside growing sales signal improvement*
4. *Construction will recover with a delay – record lows will still shift to growth within a couple of years*
5. *Interest rates settle around 2%, even as future expectations fluctuate amid global political turmoil*

Possibilities

- *Russia withdraws from Ukraine and trade wars come to an end – confidence triumphs over anxiety*
- *Housing prices enable mobility, and life circumstances dictate transactions*
- *Energy crises are over, and new supply lowers housing costs – both the environment and consumers benefit*
- *Birth rate recovers and labor-based immigration remains strong – optimistic forecasts prove correct*
- *Sufficient construction brings homes to more valuable areas and helps first-time buyers in their quest*

Risks

- *Interest rates remain high due to inflation fears, trade wars escalate, and tariffs trigger stagflation*
- *Large housing investors and construction companies collapse – new housing companies face difficulties*
- *Recession deepens, unemployment continues to rise, and financial distress grows in households*
- *Population growth halts completely as birth rates keep falling and immigration dries up entirely*
- *Construction recovery takes time, and housing prices spiral out of control in the growth triangle*

Sources:

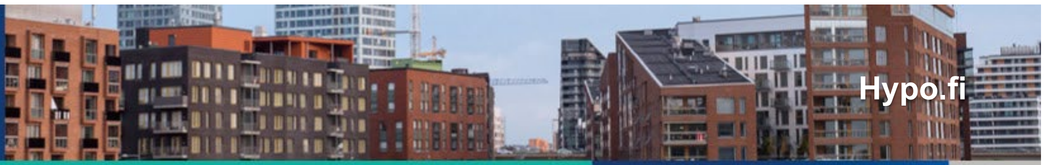
*Hurmeranta, Risto & Lyytikäinen, Teemu, 2025. Nominal Loss Aversion in the Housing Market and Household Mobility. *Vatt Working Papers 178.*

**Steegmans, Joep & Hassink, Wolter, 2018. Decreasing house prices and household mobility: An empirical study on loss aversion and negative equity. *Journal of Regional Science 58, 611–634*.

*Background of Hypo Housing Market Index

Hypo Housing Market Index combines housing prices and transaction volumes into a single value. Its development reflects the state of the housing market more comprehensively than Statistics Finland’s price data. When demand picks up, it first appears as an increase in transaction volumes and shorter selling times. Sellers react to changing market conditions only with a delay, so price levels adjust slowly. Conversely, when demand falls, selling times lengthen and transaction volumes shrink before sellers revise their asking prices to match buyers’ purchasing power and willingness.

Hypo Housing Market Index can therefore also anticipate major turning points in housing price trends. Hypo has developed the index for the Helsinki metropolitan area, Tampere, and Turku. It has been simulated using Statistics Finland’s data since 1987, covering old privately financed apartments.



Hypo's Current Housing Market Review

- The review boldly and clearly presents an independent expert's perspective on the state and direction of the housing market
- The review includes Housing Market Index for the Helsinki metropolitan area, Tampere, and Turku
- Hypo publishes this housing market review four times a year, this is now the 95th review

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The Mortgage Society of Finland is Finland's oldest nationwide private credit institution, established in 1860. The Hypo Group is an independent mutual company, managed by its members and specializing in housing finance, independent of all banks and insurance companies. The group also includes the deposit bank Suomen Asuntohypopankki Oy, founded in 2002.

According to the Interim Report for January 1 – September 30, 2025, the Hypo Group's balance sheet was 3.7 billion euros, core capital ratio 22.1%, loan portfolio 2.8 billion euros, deposits 1.6 billion euros, non-performing loans 0.4% and operating profit 8.0 million euros. The group has over 22,000 customers.

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