HYPO HOUSING MARKET REVIEW

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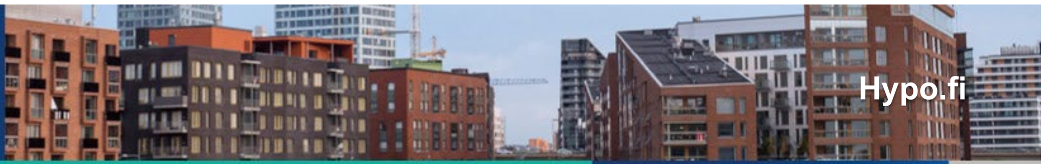

New Home Aged Even Before its First Sale

- **The early-year acceleration in housing transactions was cut short by rising interest-rate uncertainty due to the Persian Gulf crisis.** External shocks continue to delay the turnaround, even though population growth, income development and the collapse in housing construction support price trends in growth cities over the longer term. Over four years, housing prices have fallen by around one-fifth relative to income, beeing one of the steepest corrections in the euro area. **Acute uncertainty still keeps buyers cautious, but in the largest growth cities the foundations for a recovery strengthen toward next year.**

- Cities continue to grow, even as buyers hesitate. **In Helsinki and Turku, net migration between municipalities reached its highest level in 30 years last year.** Turku's recent tram decision will support areas along the route in the coming years. In Tampere, the tram network will first be extended to Pirkkala and later possibly to Ylöjärvi. **The durability of demand continues to rest on everyday needs: services, transport connections and proximity to jobs.**

- **Studio apartment prices continue to fall the most, as investor demand remains weak and rental supply is plenty.** The price development of larger homes is supported by owner-occupier demand, more moderate supply, and the growth in average household size in large cities. The gap created in the 2010s between the price indices of studios and three-room apartments has already closed in Espoo, Tampere and Vantaa.

Housing Price Forecast
2026: -2.5%
2027: 2.0%

- **Repair subsidies agreed in the government mid term spending review support the launch of renovation projects, but housing market bottlenecks cannot be resolved by regulation alone.** Raising the maximum share of housing-company loans in new builds will not turn the construction sector around as long as consumers remain risk-averse and existing supply is ample. From June, the maximum mortgage maturity is extended to 40 years, easing monthly payments for some, but increasing total interest costs and failing to remove uncertainty related to Finland's economy, labour market and interest rates. **Direct subsidies could prove costly for an already indebted public sector. By contrast, declining housing loan balances justify easing loan maturities and ASP down-payment requirements.**

Capital Region Prices
2026: -3.0%
2027: 3.0%

- **The share of companies in transactions of old apartments has doubled over three years.** During the weakest market year, 2023, the share rose to nearly one-fifth, but based on preliminary data it has since returned to around 10% as household demand recovers. Buyers with business IDs support transaction activity even in weak phases. Large portfolio deals are largely invisible to ordinary buyers, whereas apartments entering the consumer market would increase supply and slow the price turnaround. More efficient rental processes under new investor ownership may also improve rental supply. **Many newly built apartments now appear statistically as old homes, masking the clearance of new-build inventories.**

- **The Persian Gulf crisis rapidly shifted interest-rate expectations toward hikes, directly impacting mortgage borrowers.** Since the onset of the crisis, the 12-month Euribor has risen by 0.6 percentage points, implying roughly €100 more per month in interest costs on a €200,000 loan. The ECB may be forced to play it safe and raise policy rates, but the number of hikes will depend on the duration of the crisis, oil prices and the persistence of inflationary effects.

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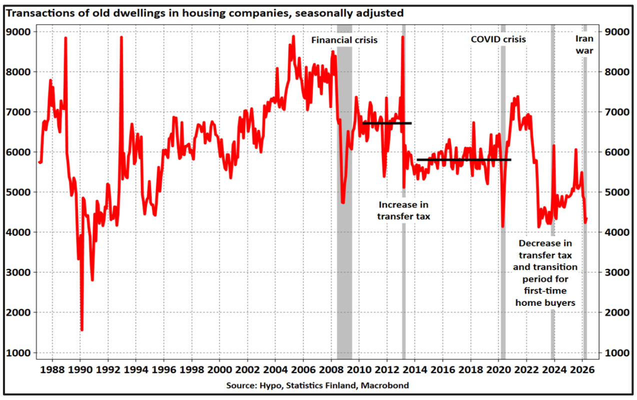
Housing sales still struggle after rate shock

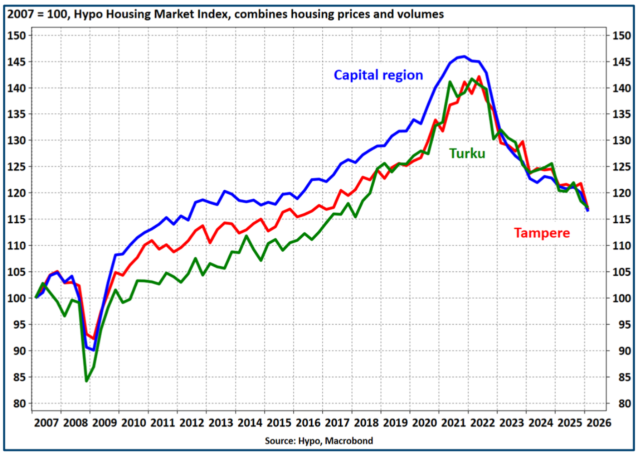
Early-year data indicate that price declines continue. The acceleration in housing transactions stalled when the Iran crisis escalated in March, with transaction volumes reportedly 5–10% below last year according to preliminary brokerage data. Repeated external shocks continue to postpone the recovery and reinforce uncertainty as attention once again turns to interest rates. Over four years, housing prices have fallen by roughly one-fifth relative to income growth, among the largest declines in the EU, alongside Luxembourg, Germany and Romania. Nevertheless, urban population growth, historically low housing starts and positive income development provide a solid basis for a price turnaround in large cities, even if acute uncertainty keeps consumers cautious this year.

Transaction growth stalled early in the year

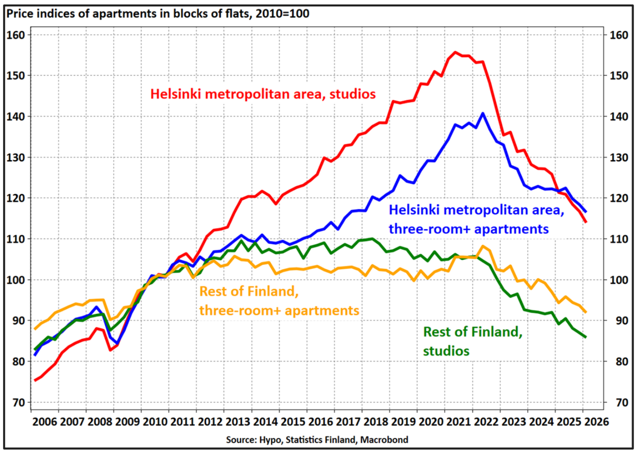


Hypo Indices declined in January–March and now hover around an index level of 117. Consumers' initial reaction to the Iran crisis is already partly visible in early-year figures. Net inter-municipal migration gains in Helsinki and Turku reached a 30-year high last year, while Vantaa recorded net losses for the fifth consecutive year, with population growth driven by immigration. Turku's long-awaited tram decision will already support areas along the route in the coming years, and in Tampere, the current tram line will first be extended to Pirkkala and later possibly as far as Ylöjärvi. Despite global uncertainty, housing demand from new residents supports price development next year.

Hypo Indices still point to a challenging year

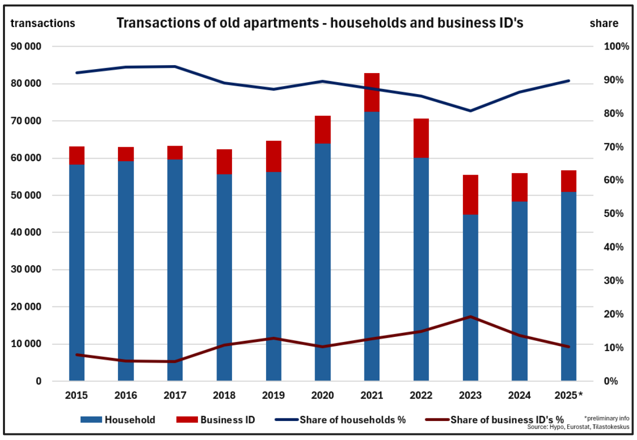


Studio apartment prices continue to decline the most



The price outperformance of studio apartments reversed four years ago. During the 2010s, studio prices in the Capital Region rose more steeply than those of larger apartments, but the correction has also been stronger. Weaker investor demand, higher interest rates and increased rental supply have weighed particularly on small units. Price declines for larger homes have been more moderate, supported by owner-occupier demand, more limited family-home supply and migration to growth centres. Demographic change reinforces this trend: in Helsinki, Tampere, Turku and Vantaa, the long-term decline in average household size reversed in 2024–2025, strengthening demand for larger apartments relative to investor-driven studios. Demand nevertheless continues to rely on functioning services, good transport connections and sufficient employment bases.

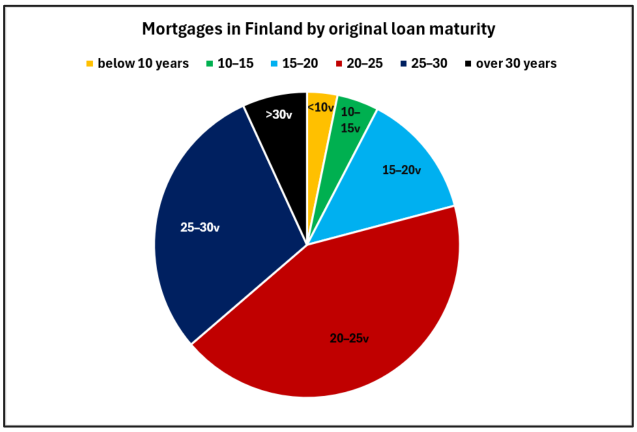
Corporates are also trading old apartments



Institutional investors, such as pension companies and housing funds, have featured prominently in headlines as transactions increasingly involve old apartments and portfolios rather than new builds. In transactions of old apartments, the role of buyers with a business ID increased particularly in the market's weakest year, 2023. Based on Hypo's calculations households still accounted for the majority of transactions, the share of business-ID buyers nearly doubled from around 10% in 2020 to almost 20% in 2023. Compared with the peak year of 2021, the increase does not appear to stem from a strong rise in transactions by companies, but rather from the fact that household transaction volumes declined much more sharply amid rising interest rates and a weak economic cycle. Institutional investors thus keep the wheels of the market turning even in weak conditions and signal investor confidence. When entire portfolios change hands between investors, the largest supply shocks do not flow directly into the consumer market. At the same time, the statistics also include transactions by ordinary companies and private individuals operating with a business ID. In 2024, the share of business-ID buyers had already fallen to around 14%, and preliminary data for 2025 suggest about 10%, pointing to market normalization as household demand recovers. Historically large portfolio sales by pension companies will be reflected in the figures for 2026.

New-build sales remain weak amid abundant supply. Statistics may be misleading, as homes completed in 2023 and sold for the first time this year are recorded as old apartments. Consequently, the stock of unsold new homes is melting faster than new-build transaction statistics suggest – hundreds of new-build apartments completed in 2023 or earlier are still listed online for sale. The phenomenon reflects the times well, as unsold new homes are now statistically classified as old.

Extending loan maturities alone is a modest remedy



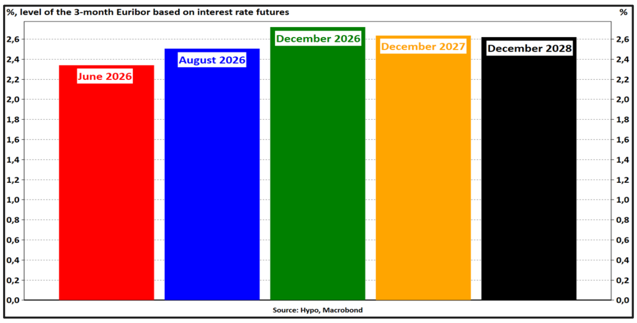
The government mid term spending review resulted in a patchwork of targeted measures that support the launch of renovation projects but only provide limited support to housing transactions. The €110 million support package for housing-company renovations is comparable in size to the pandemic-era scheme, while increases in the household tax deduction and its deduction rate encourage self-initiated renovations this year and next. Raising the maximum loan-to-value ratio for housing-company loans in new developments from 60% to 70% will not turn new construction around, as demand still fails to absorb existing supply and consumers continue to shy away from risks associated with new builds. As housing-company loans remain a drag on new developments, they should not be mixed up with the lower-margin, lower-risk housing-company loans used in renovation projects, which are essential for enabling refurbishment in housing companies.

The outlook for renovation activity is improving, but the direction of the housing market will not be determined by regulation alone. The maximum maturity for new mortgages will be extended to 40 years from early June, but most borrowers will continue to choose loan terms well below the maximum. A longer maturity can nevertheless ease household finances by reducing monthly payments and increasing financial flexibility, as borrowers may still repay more than the minimum if they wish. When extending loan maturities, however, it is important to remember that total interest costs rise significantly, and the use of the monthly savings ultimately determines whether a longer loan term supports wealth accumulation. Homes are also typically sold well before the final loan repayment, in which case disciplined amortisation increases equity and strengthens the household's position in the next housing transaction. There are still grounds for regulatory easing, as the average size of household mortgages has declined continuously since 2021.

In addition to extending the maximum maturity of new mortgages, the minimum down payment for ASP loans will be reduced from 10% to 5%, although the reform is likely to enter into force only next year. International research suggests that regulatory easing supports housing demand, but the impact depends on which constraint binds households when purchasing a home. In the case of Italian mortgages*, longer loan maturities increased loan demand by lowering monthly payments and leaving more room for consumption, saving or investment. A one-percent increase in loan maturity raised loan demand by around 0.30%. The result cannot be directly applied to Finland, however, as banks' stress tests, based on a 6% interest rate and a maximum maturity of 25 years, continue to cap borrowing capacity relative to applicants' net income. To date, roughly one-third of the mortgage stock has had maturities exceeding 25 years, meaning that extending the maximum maturity will affect only some borrowers. Housing transactions are therefore likely to increase mainly among buyers who already fall below the stress-test limit but benefit from greater flexibility in monthly payments and view this flexibility as decisive for their purchase decision. Fewer than half of owner-occupied households carry mortgage debt. When extending loan maturities, it is also worth recalling the strengths of the Finnish model: in Sweden, where loan maturities are long, banks can reprice loans during the loan term, which supports risk management but shifts pricing risk to households – an approach that is not favoured in Finland.

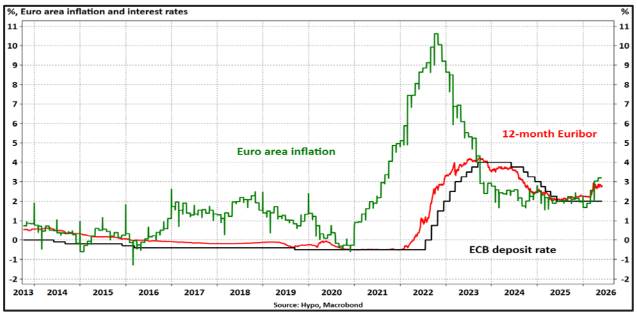
In Canada**, changes to maximum loan-to-value ratios proved more effective than extending loan maturities, as the binding constraint for first-time home buyers was specifically the down payment. Lowering the ASP down-payment requirement targets this constraint more directly, but ASP buyers account for only a small share of the overall market, just a few percent, since the majority of first-time buyers also use standard mortgages. The impact may nevertheless be locally significant if it brings first-time buyers back into the market and helps unlock frozen and extended transaction chains in cities.

Markets are pricing in interest-rate hikes



The outbreak of the Iran crisis rapidly shifted interest-rate expectations, and since then the 12-month Euribor has risen by 0.6 percentage points. For a mortgage borrower with a €200,000 loan, this translates into roughly €100 more in monthly interest expenses. The effects of the Iran crisis and the closure of the Strait of Hormuz are already largely priced into the current level of the 12-month Euribor, meaning that normalization could ease interest-rate pressures. On the other hand a prolonged crisis, persistently higher oil prices and broader inflationary effects could push rates higher. However, the ECB's starting position differs markedly from four years ago when inflation was nearing 9% with the unwinding of post-pandemic demand: inflation is now around 3%, with core inflation close to the 2% target. The ECB is nevertheless likely to proceed cautiously, with the number of rate hikes depending on the duration of the crisis and the persistence of energy-driven inflation pressures. Oil production cannot rebound overnight, but price developments are driven above all by rapidly shifting expectations about the future.

The ECB is still meeting amid moderate inflation



Hypo's View on the Housing Market

1. *The housing price turnaround is postponed again as the Persian Gulf crisis raises interest rate uncertainty*
2. *Government measures and support help, but are insufficient on their own to unlock housing transactions*
3. *The market diverges by apartment type and location – the earlier lead of studios faded quickly*
4. *Urban population growth remains strong, and the confidence gap is set to turn into demand next year*
5. *Euribors signal elevated interest-rate expectations – the policy rate will be raised at least once*

Opportunities

- *The Iran crisis is resolved, Russia withdraws from Ukraine and trade tensions ease – confidence recovers*
- *Housing prices support mobility and transactions are driven by life-cycle needs*
- *The energy crisis proves temporary and new supply lowers housing costs – both consumers and the environment benefit*
- *Birth rate recovers and labour-based immigration remains strong – optimistic forecasts prove correct*
- *Construction recovers and housing supply supports urban home seekers also in the years to come*

Risks

- *Interest rates rise more, inflation accelerates, trade wars escalate and tariffs trigger stagflation*
- *Large housing investors and construction companies fail – new housing companies face difficulties*
- *The economy slips into recession, unemployment rises and household distress grows*
- *Population growth halts as birth rates fall and immigration dries up*
- *Construction does not recover for years and prices surge in the growth triangle*

Sources:

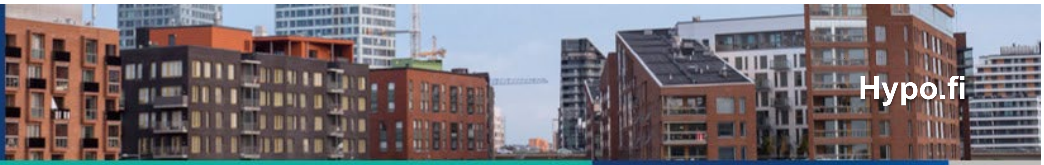
*Ferrari, M., & Loseto, M. (2023). Liquidity constraints and demand for maturity the case of mortgages. *European Central Bank Working Paper Series, No. 2859. European Central Bank.*

**Allen, J., Grieder, T., Peterson, B., & Roberts, T. (2020). The impact of macroprudential housing finance tools in Canada. *Journal of Financial Intermediation, 42.*

* 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 97th 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 1.1.–31.3.2026 the Hypo Group's balance sheet was 3.6 billion euros, core capital ratio 21.5%, loan portfolio 2.8 billion euros, deposits 1.5 billion euros, non-performing loans 0.3% and operating profit 1.8 million euros. The group has over 22,000 customers.

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