

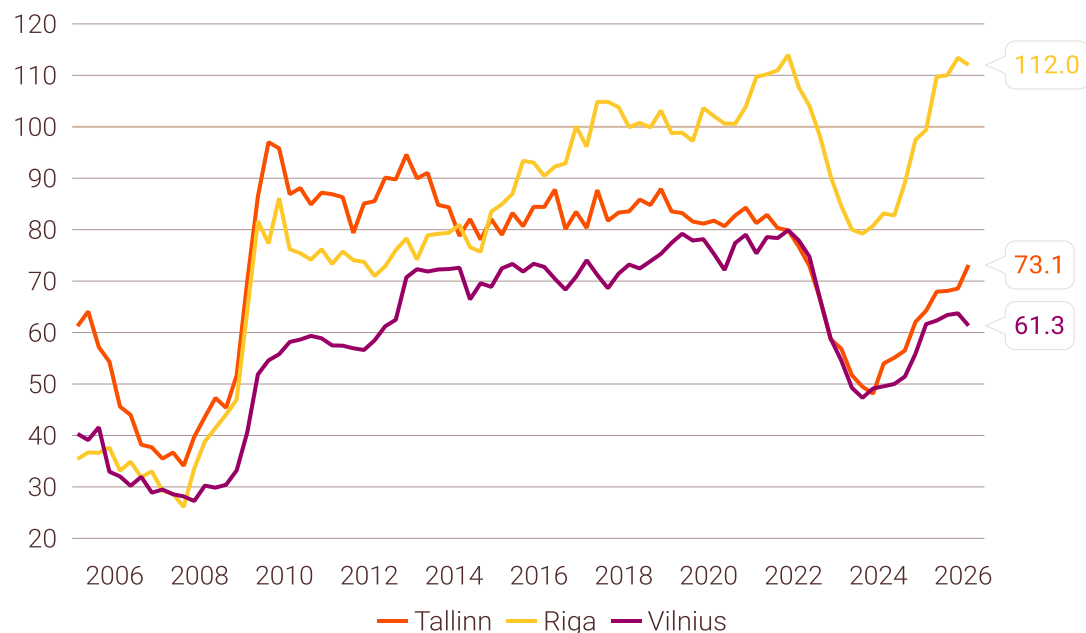
Baltic Housing Affordability: from tailwinds to headwinds

The peak in affordability likely behind us in Riga and Vilnius, while Tallinn saw improvement in Q1

- Market activity was slightly lower than in recent quarters, but remains relatively high
- Housing affordability will gradually decline this year as borrowing costs increase

Baltic Housing Affordability*

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



* The value for 2026 Q1 is preliminary and subject to change.
Sources: Swedbank Research & Macrobond

Example: 73.1 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 housing affordability story among Baltic capitals varies. The recent reform in personal income tax in Estonia had a material impact on household net incomes in Tallinn, pushing affordability in the first quarter of 2026 higher compared with both the end of 2025 and a year ago. In Vilnius, booming housing demand has led to double-digit apartment price growth that is outpacing wage growth, causing affordability to fall below 2025 levels. In between these stories lies Riga, with comparatively weaker wage growth that did not manage to exceed apartment-price growth over the preceding quarter, leading to a slight decline in affordability.

Despite these diverging developments across capitals, the broader outlook is becoming less favourable for housing affordability. In our latest [Swedbank Economic Outlook](#), we forecast two rate hikes from the European Central Bank (ECB), while the markets are currently pricing in 3 hikes. This will increase borrowing costs, though not to the extent seen during the previous monetary-tightening cycle. Furthermore, this tightening is expected to be short-lived, with rates forecast to decline again in 2027. Weaker economic prospects and higher inflation are likely to weigh on consumer confidence. All things considered, housing affordability in Riga and Vilnius likely peaked in late 2025, while in Tallinn the peak is expected to occur in the first half of this year.

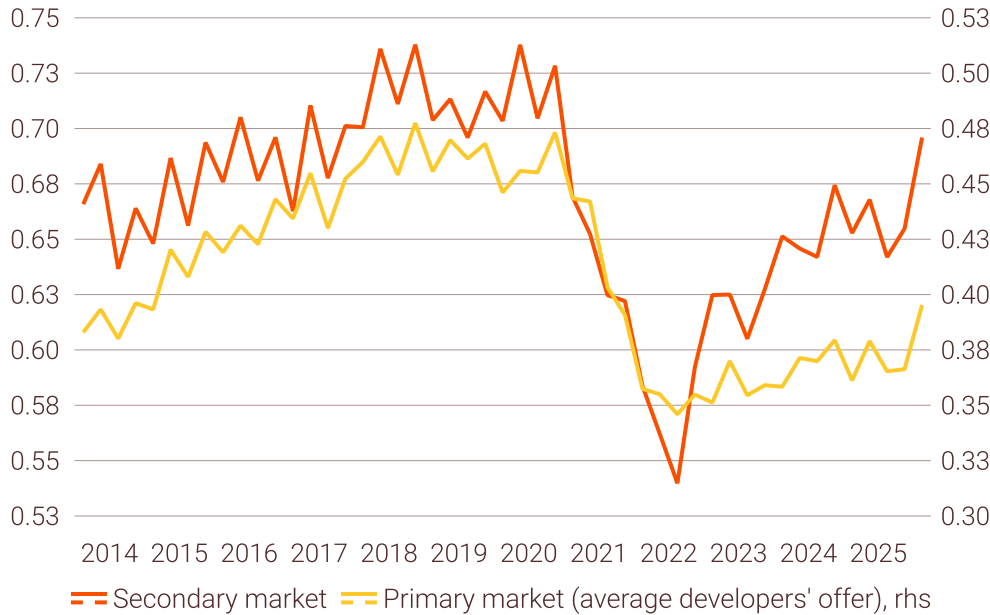
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Tallinn – a tale of two markets

Strong income growth is supporting the revival of the primary market

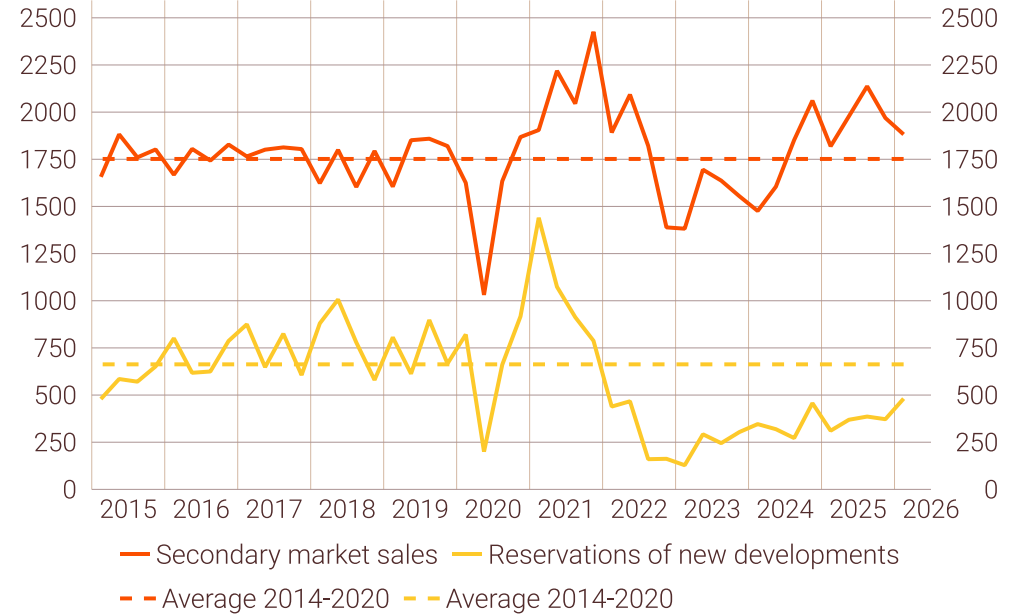
Purchasing power of a monthly wage in the housing market
m² of apartment affordable with an average monthly wage



Sources: Swedbank Research & Macrobond

- The purchasing power of the average net wage in the housing market continues to improve from the lows seen in 2022. A notable improvement was seen at the start of the year, driven primarily by robust wage growth, boosted by income tax reform. While the purchasing power of the net wage in the secondary market has recovered and is now close to 2019 levels, it remains weaker in the primary market, with the number of affordable square metres at 2021 levels.
- Housing market activity is improving alongside affordability. In Q1, activity increased over the year in both the secondary and primary markets. Although activity is still concentrated in the secondary segment, the number of transactions in the primary market rose notably at the start of the year, as higher disposable

Tallinn market activity
nr of apartments, quarterly



Sources: Swedbank Research & Macrobond

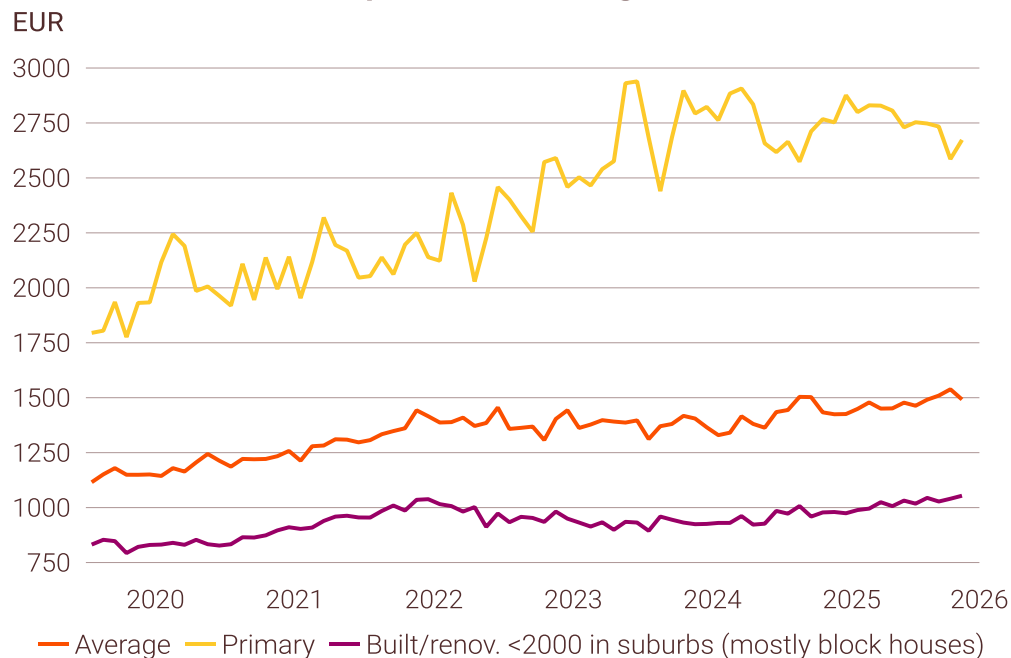
income enabled households to qualify for larger mortgages.

- As expected, secondary market price growth has accelerated and was 6.5% y/y in Q1, supported by higher activity. Meanwhile, developers' listings indicate more moderate price growth of 3.7% y/y, with inventory of new apartments now at an all-time high. The price gap between the two segments should gradually narrow.
- The Euribor has increased since March and, in our view, its current level already fully reflects two expected interest rate hikes. Despite the higher Euribor, robust net wage growth this year will keep housing affordability in Tallinn above last year's level, although affordability is likely to peak in the first half of the year.

Riga – overall housing affordability a tad weaker, yet remains high

Affordability likely to deteriorate below current levels

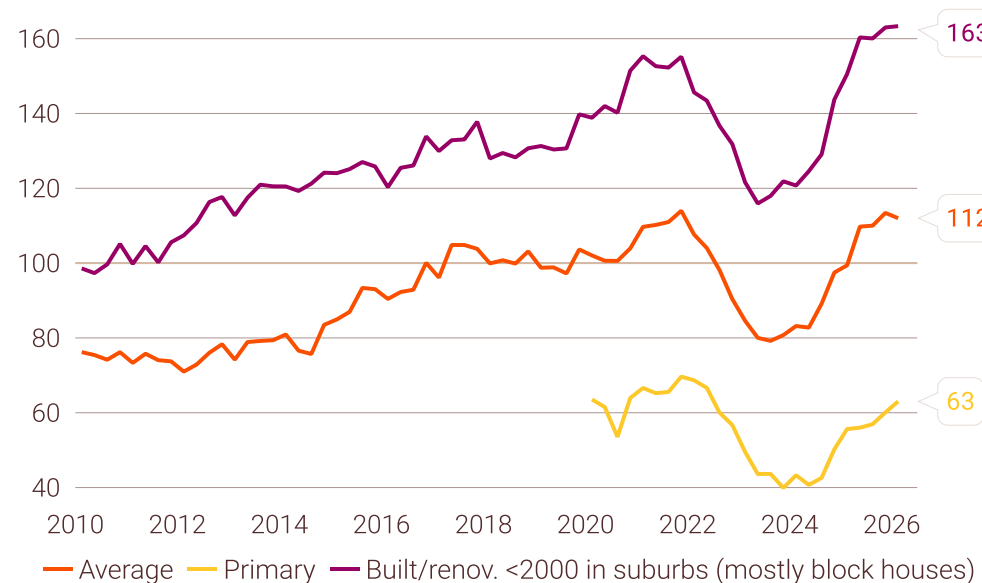
Prices of residential apartments in Riga



Sources: Swedbank Research & Macrobond

Housing affordability in Riga

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



Sources: Swedbank Research & Macrobond

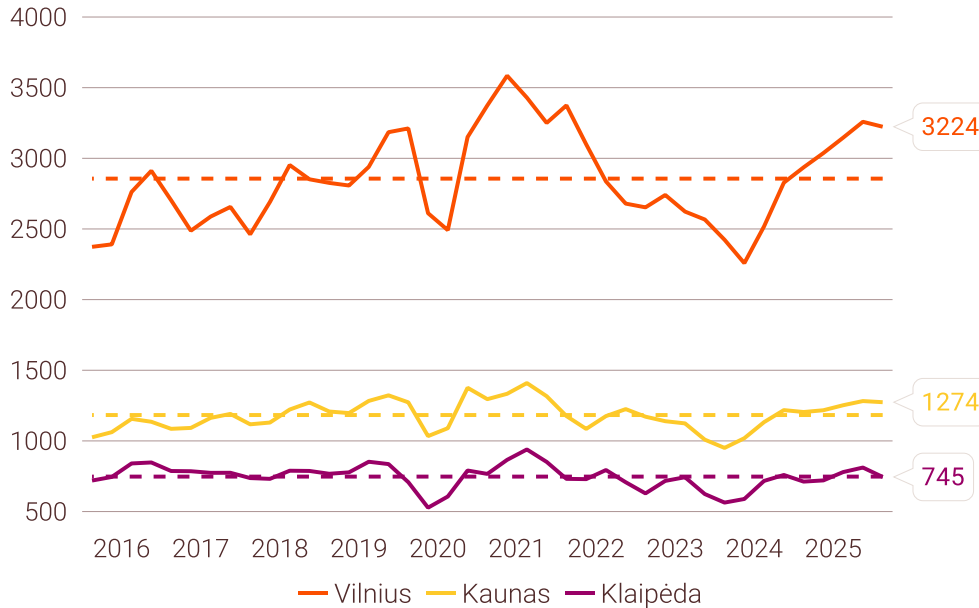
- In Q1 2026, housing affordability deteriorated slightly compared with the end of last year. This was due to apartment prices outpacing wage growth. Nevertheless, affordability remains relatively high and significantly above the level seen a year ago. Interest rates declined further in the first quarter on average but were already up in March.
- The weakening in market activity seen in late 2025 continued into Q1 2026. Despite the deceleration, market activity remains well above the average seen in the past 18 years. Primary market transactions declined quarter-on-quarter, mostly due to a lower number of new housing projects coming onto the market. With more projects in the pipeline, it is likely that we will see an uptick in the coming quarters.
- Affordability in the primary market strengthened further as apartment prices declined over the preceding quarter. The segment remains notably more affordable in Riga than in the other Baltic capitals.
- The outlook for 2026 remains highly uncertain. On the one hand, wage growth is still expected to outpace apartment-price growth, and baseline forecasts include a relatively modest 0.5 pp increase in ECB rates. On the other hand, there is a risk of additional rate hikes, and an upward pressure on construction costs, which could push prices of new apartments up. We expect housing affordability in Riga to continue declining this year, but it will not deviate far from 2025 levels.

Vilnius – market activity remains high, but growth is slowing

The cure for high prices is high prices

Apartment sales above long-term average

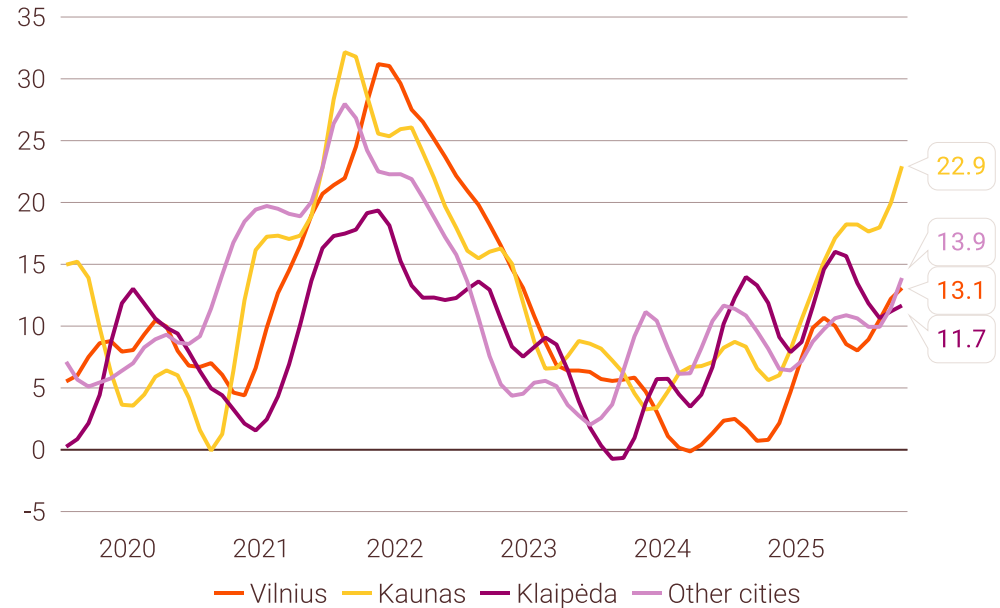
Quarterly, 2 quarter m.a.



Sources: Swedbank Research & Macrobond

Apartment prices on the rise

y/y %, 3mma, repeat sales price index



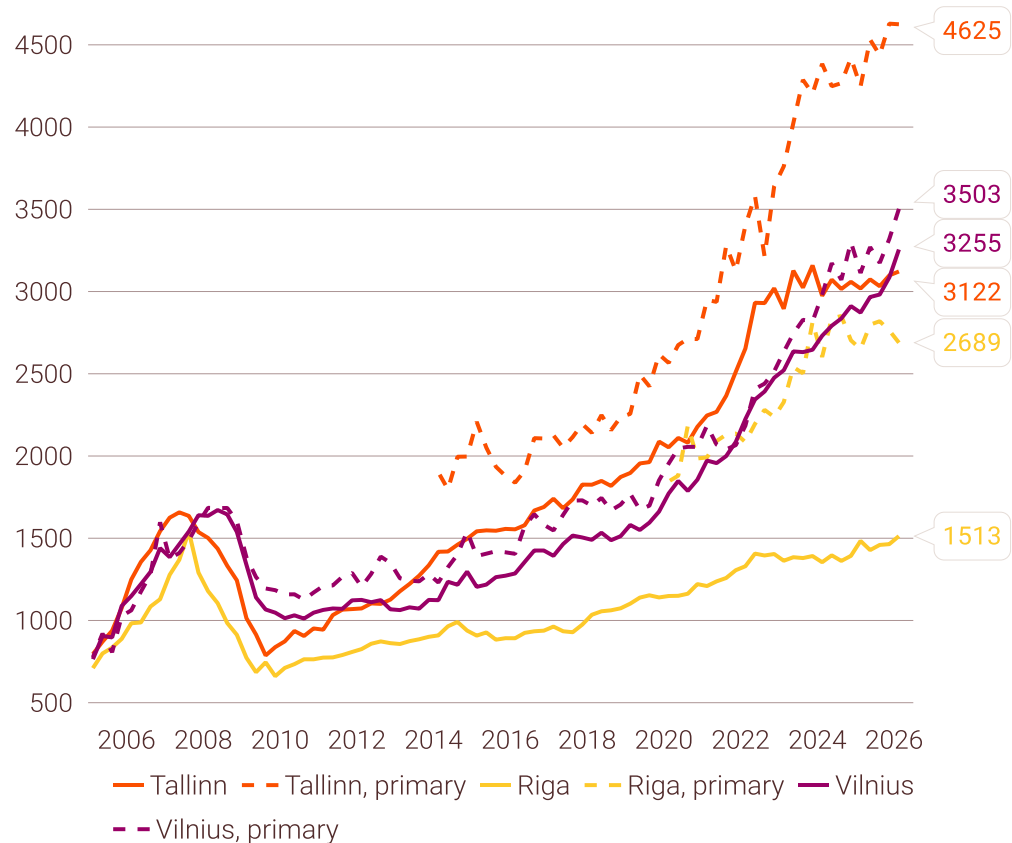
Sources: Swedbank Research & Macrobond

- The number of transactions remained high and above the long-term average, with growth driven by both the primary and secondary markets. In the primary market, the number of reservations in Q1 was 70% above the long-term average. Meanwhile, apartment supply remains elevated, with the unsold housing stock in the primary market still exceeding 5 000 units.
- With borrowing costs increasing and house-price growth outpacing wage growth, affordability deteriorated in all three of Lithuania's largest cities. On average, buyers can now afford to purchase a 61.3 m² apartment in Vilnius – more than 2m² smaller than in the preceding quarter. Affordability in the country's other two largest cities deteriorated even more – falling by 6.8 m² and 8 m².
- The repeat-sales house price index shows that price growth in the capital remains high, exceeding 12% in March. Second-pillar pension withdrawals and a lower downpayment requirement for first-time buyers (from 15% to 10% from August 2026) suggest that strong momentum in the housing market will persist this year as well.
- Nevertheless, accelerating price growth and worsening affordability are increasingly putting limits on purchasing opportunities, especially for first-time buyers. This suggests that, despite the temporary boost from second-pillar pension withdrawals, housing market activity is expected to slow gradually, resulting in a more balanced real estate market next year.

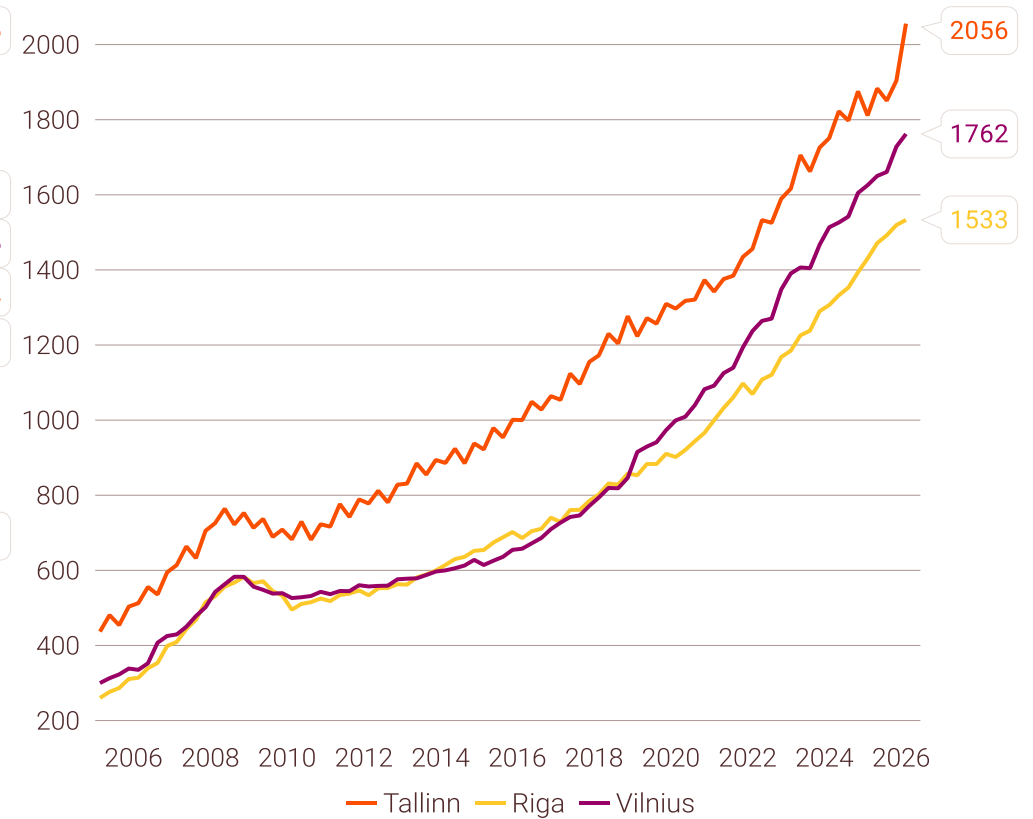
Wage growth persists in Riga – and even accelerates in Tallinn and Vilnius

Price difference in the primary market between capitals widens

Average apartment price
EUR/m²



Average monthly net wage*
EUR



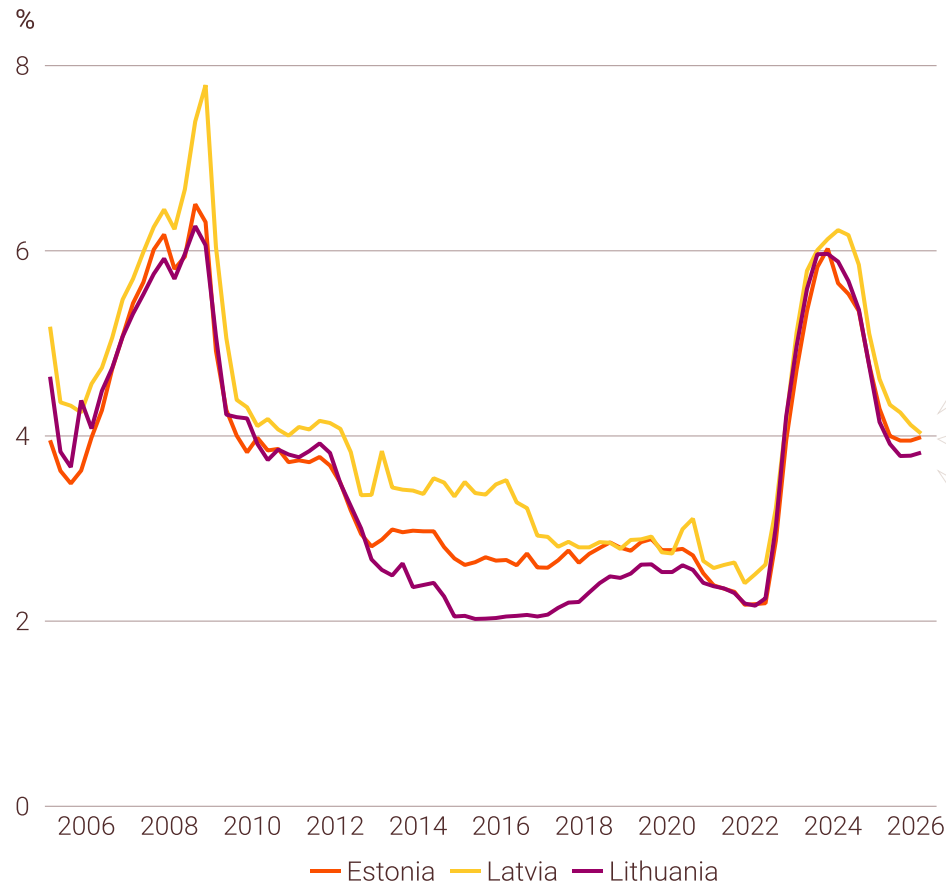
* The value for 2026 Q1 is an estimate and subject to change.
Sources: Swedbank Research & Macrobond

Sources: Land Boards, Swedbank Research & Macrobond

Interest rate decline has stopped

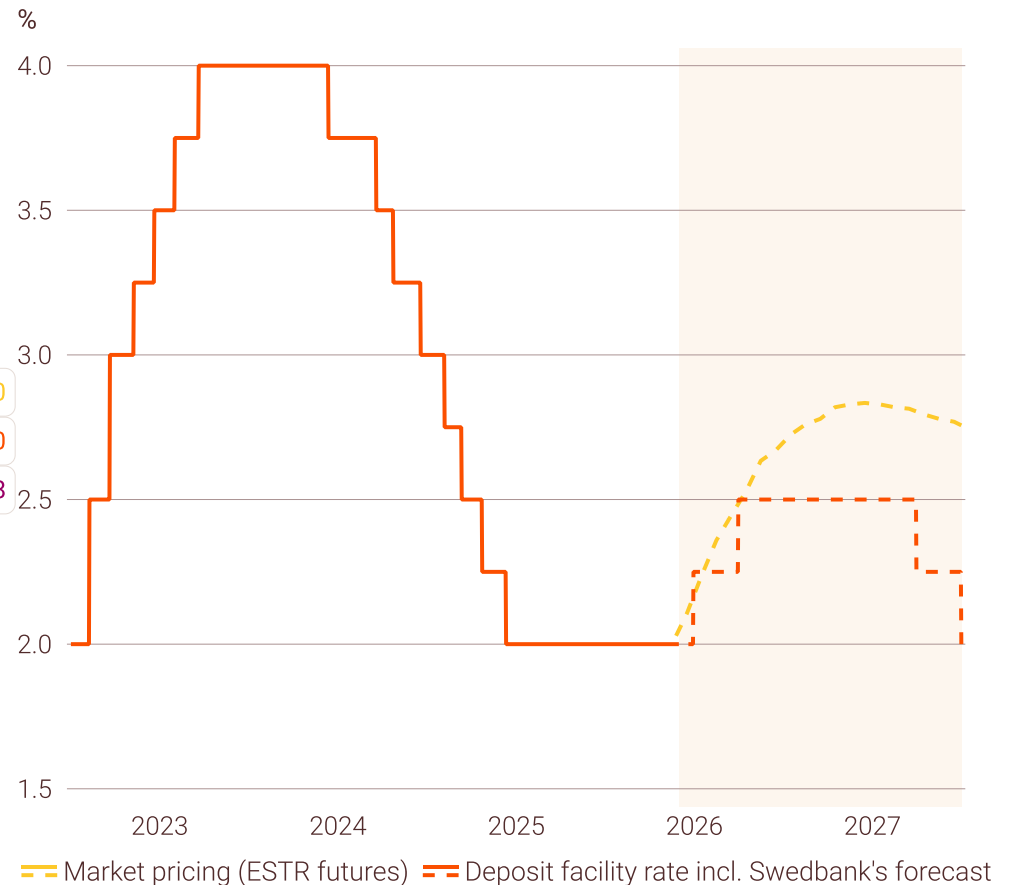
We now expect two rate hikes by the ECB, while the markets have pencilled in one more

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



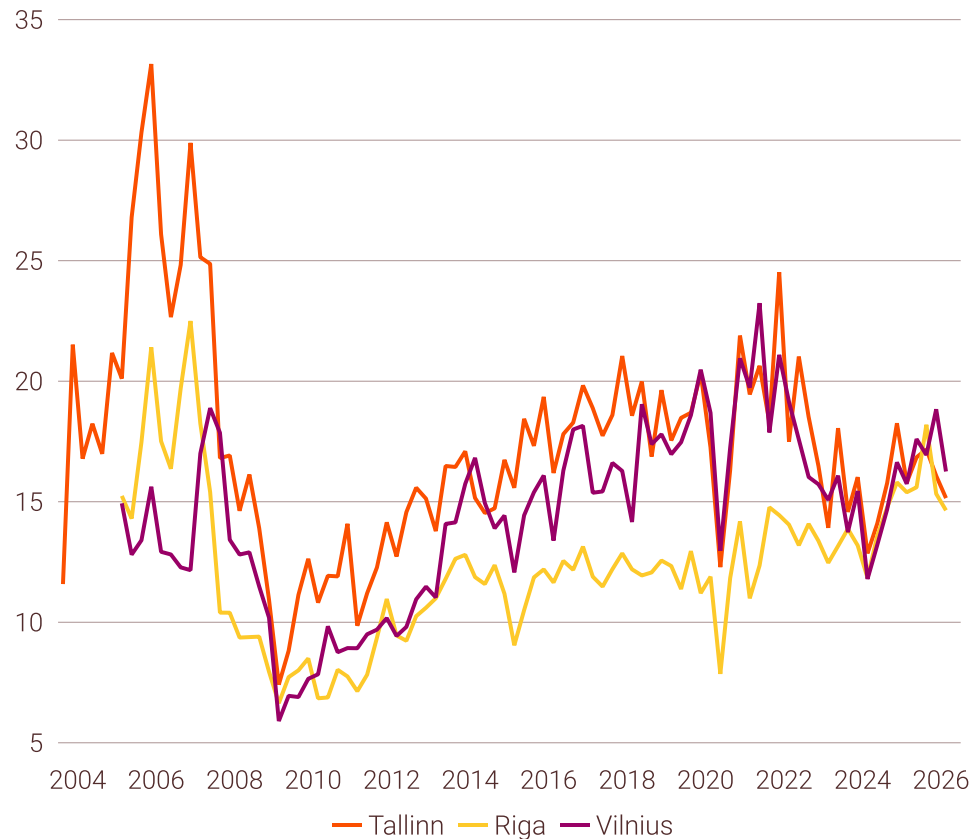
Sources: Swedbank Research & Macrobond

Market activity in Q1: comparatively high, yet lower than in recent quarters

Geopolitical turmoil, along with weaker economic prospects, weighs on consumer confidence

Market activity

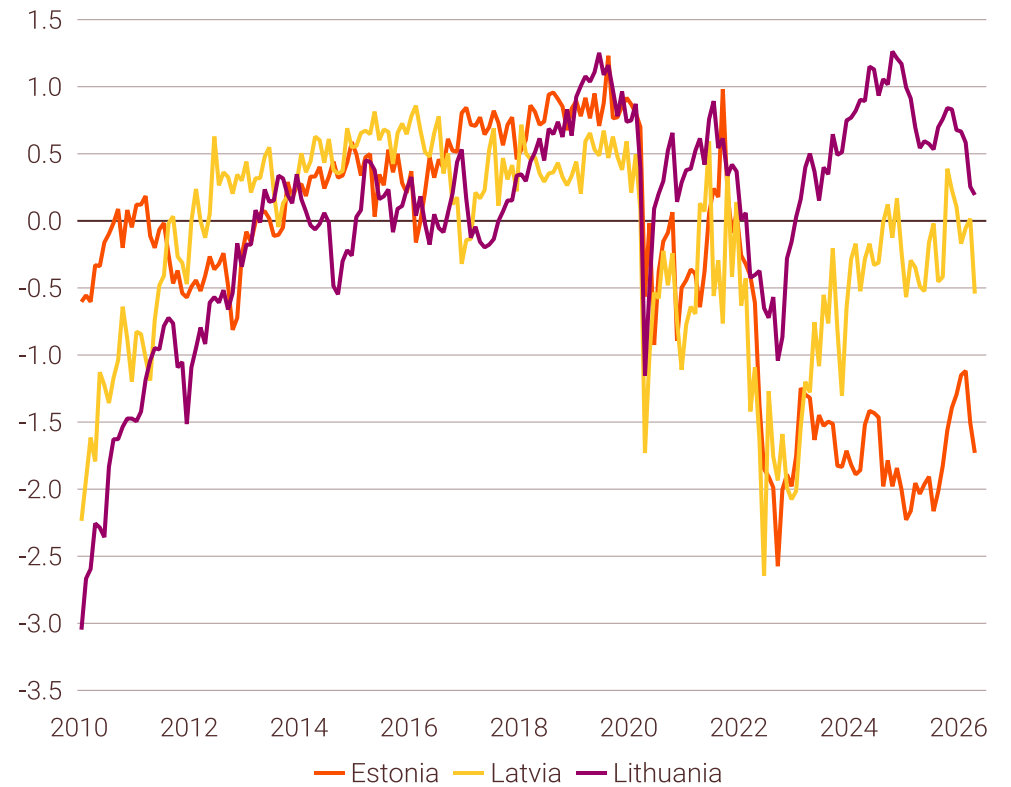
Transaction count per 10K residents, residential apartments



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardised, 0 = long-term average



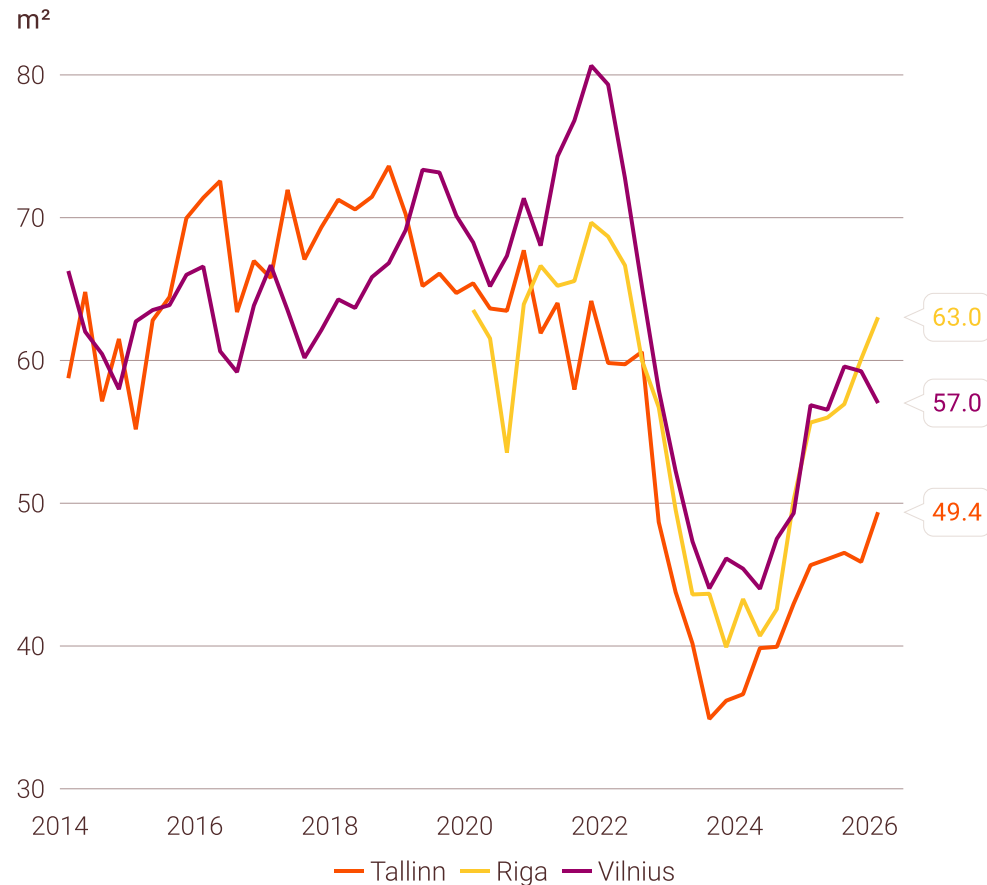
Note: In May 2022, Estonia changed its methodology – the survey is now conducted online with 1000 people interviewed.

Sources: Swedbank Research & Macrobond

Affordability in Riga's primary market closest to its previous level

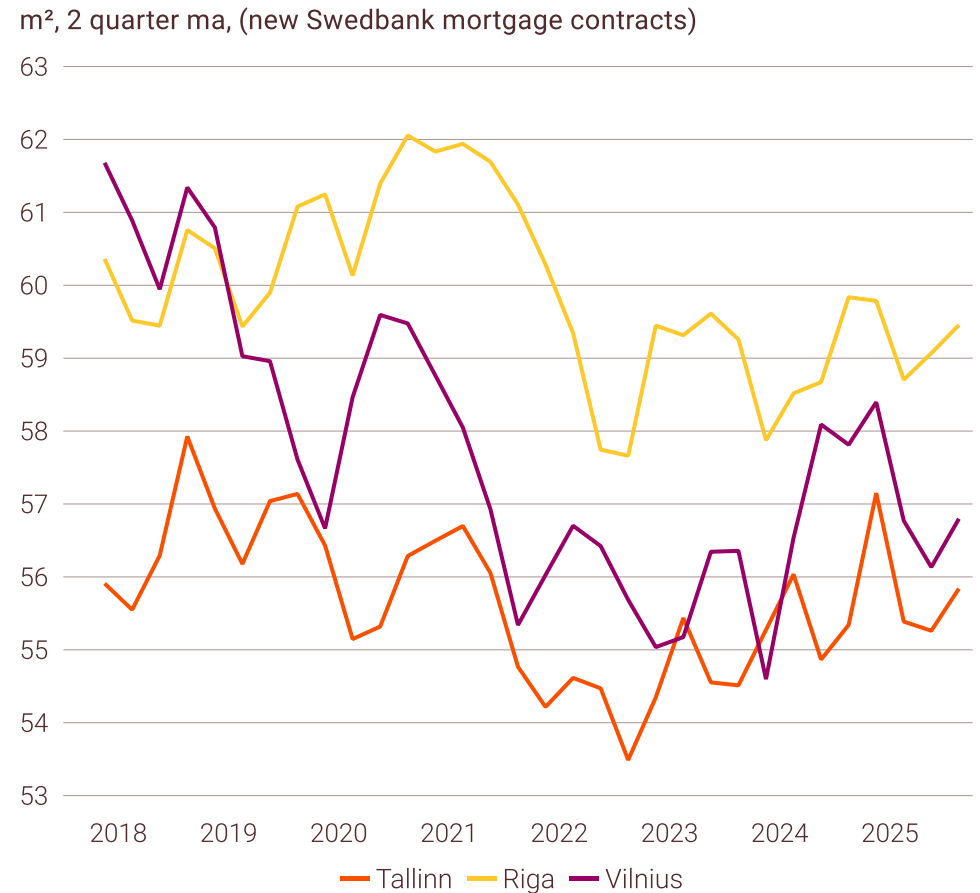
Better housing affordability over time reflects larger apartment size in mortgage contracts

Housing affordability in the primary market



Sources: Swedbank Research & Macrobond

Average apartment size



Sources: Swedbank Research & Macrobond

Baltic Housing Affordability: Methodology

Objective

The Baltic housing affordability measure (henceforth, HA) measures the size of 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 the Baltic capitals
- Household income: 1.5 times the average monthly net wages in the 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

- Downpayment: 15% of total apartment price
- Term: 30 years
- Saving rate for downpayment: 30% of household income

Calculation of HA

The HA shows how many square metres of apartment that 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 such as 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 utility payments, 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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