Swedbank

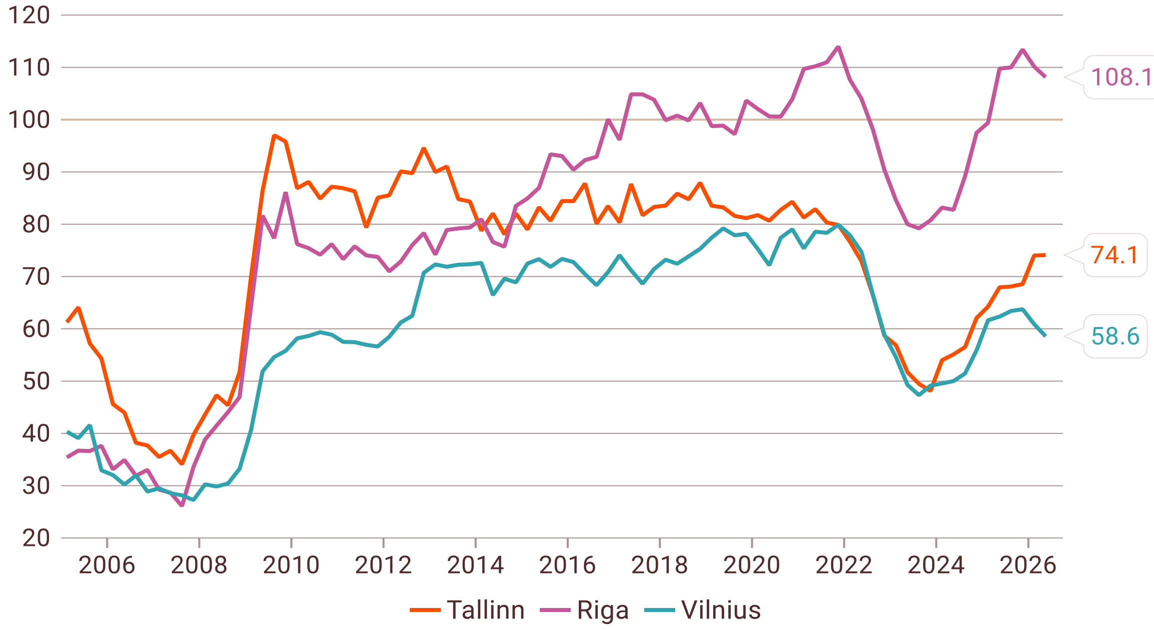
Baltic Housing Affordability: rapid price growth dents affordability

Affordability in Riga and Vilnius already below the previous year's levels

- Market activity was slower over the year, yet still close to or above the long-term average
- Housing affordability will primarily depend on wage-price dynamics, as interest rates are not expected to materially increase further this year

Baltic Housing Affordability*

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



* The value for 2026 Q2 is preliminary and subject to change.
Sources: Swedbank Research & Macrobond

Example: 108.1 m² represents the apartment size that an average household in Riga can afford, given 1.5 times the average net monthly wage, the quarterly average apartment price, and the interest rate for new loans.

Each Baltic capital faced similar factors in the second quarter as in the first months of 2026. In Tallinn, net wage growth exceeded apartment price growth due to a significant boost from the personal income tax reform. This kept housing affordability considerably higher than a year ago. Conversely, in Vilnius and now also in Riga, prices increased more rapidly than wages. Paired with an increase in interest rates, this has pushed affordability below last year's levels.

Market activity was at or above the long-term average, yet below last year's exceptional performance. After adjusting for population size, activity was almost identical in Tallinn and Vilnius, with Riga landing slightly below that.

In a wider context, the outlook for housing affordability and market activity remains largely unchanged. Geopolitical uncertainty has persisted, somewhat affecting consumer confidence. As expected, the European Central Bank (ECB) raised its key interest rates by 25 basis points in June. Swedbank forecasts one more hike this September. Mortgage interest rates have already priced in the remaining rate hike and EURIBOR has increased only marginally in the third quarter so far. As a result, unless new shocks to the inflation outlook emerge, the negative drag of higher interest rates on housing affordability is not likely to materially increase in the coming quarters.

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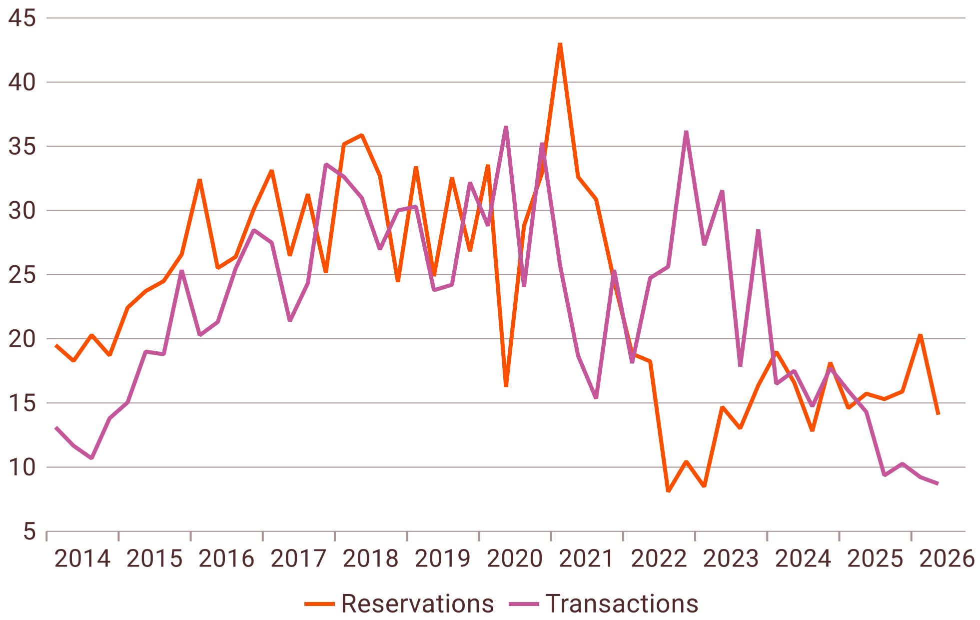
Tallinn – robust wage growth supports housing affordability

Demand in the primary market remains subdued

The share of new developments in total activity, Tallinn

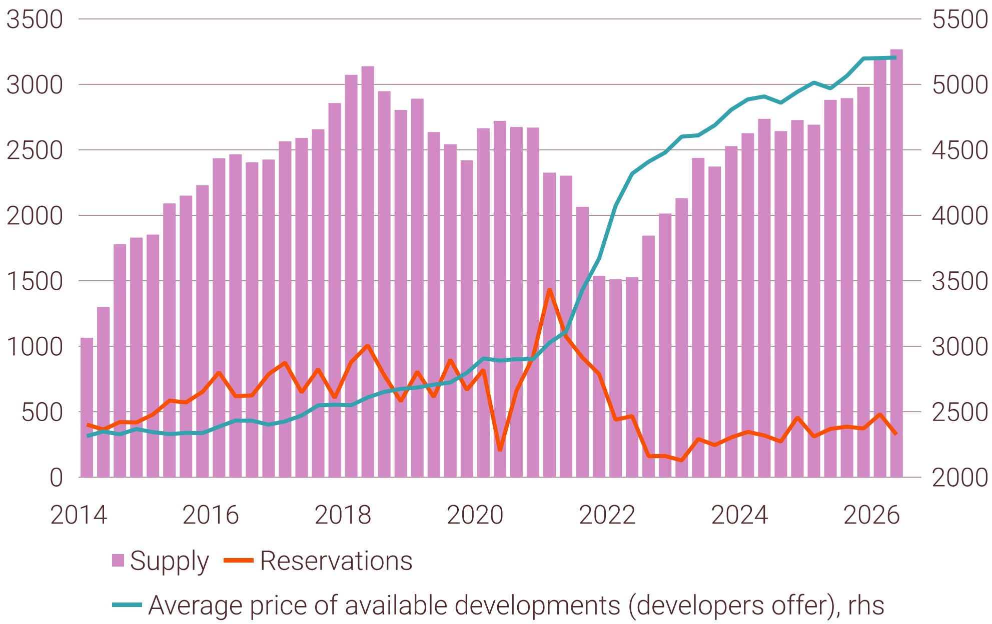
% of total market activity



Sources: Swedbank Research, Estonian Land Board

New developments in Tallinn

Number of apartments (lhs), price/m2 (rhs)



Sources: Swedbank Research & Macrobond

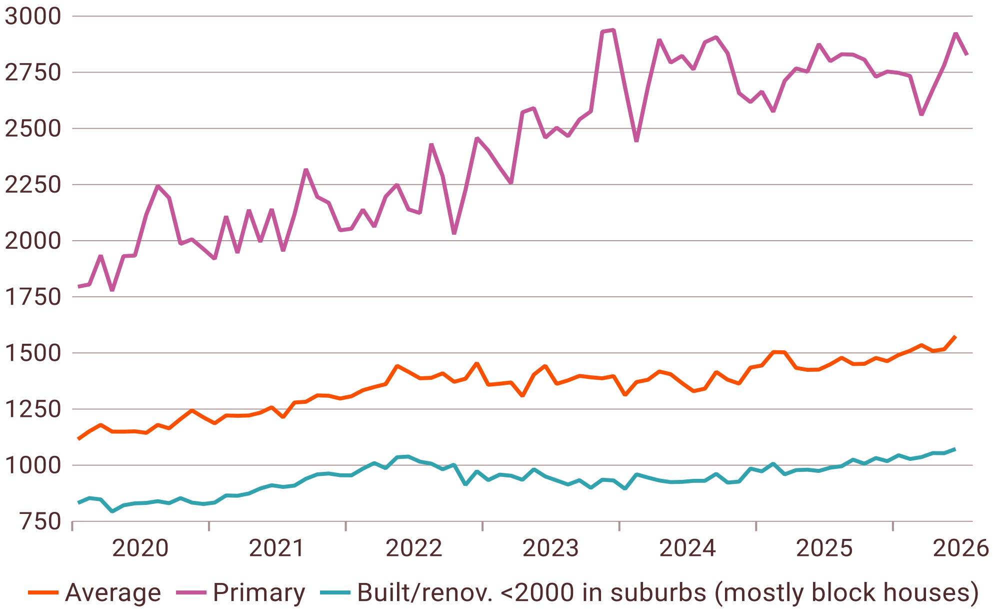
- Activity in the housing market continues to differ between the secondary and primary markets. In the second quarter, the secondary market was, as usual, more active than at the start of the year. Compared with the second quarter of last year, however, the number of transactions remained broadly unchanged. In contrast, the number of reservations for newly developed apartments was lower than in both the previous quarter and a year earlier, while the supply of new apartments continued to increase.
- Price growth in the secondary market was 4% year on year in the second quarter. Meanwhile, developers' listings indicate around 5% price growth in the primary market. The purchasing power of the average net wage in the housing market is notably higher than a year ago, as net wage growth, boosted by the income tax reform, is significantly outpacing apartment price growth. On average, buyers can afford 77.6 m² apartment in the secondary market, up from 74.1 m² a year ago. Meanwhile, affordability in the primary market increased from 42 m² to 44.7 m².
- Although EURIBOR is already higher than a year ago and will remain so in the second half of the year, robust net wage growth will keep housing affordability in Tallinn above last year's level.

Riga – housing affordability continues to decline

Market activity slower than a year ago; a pickup in primary-market transactions expected

Prices of residential apartments in Riga

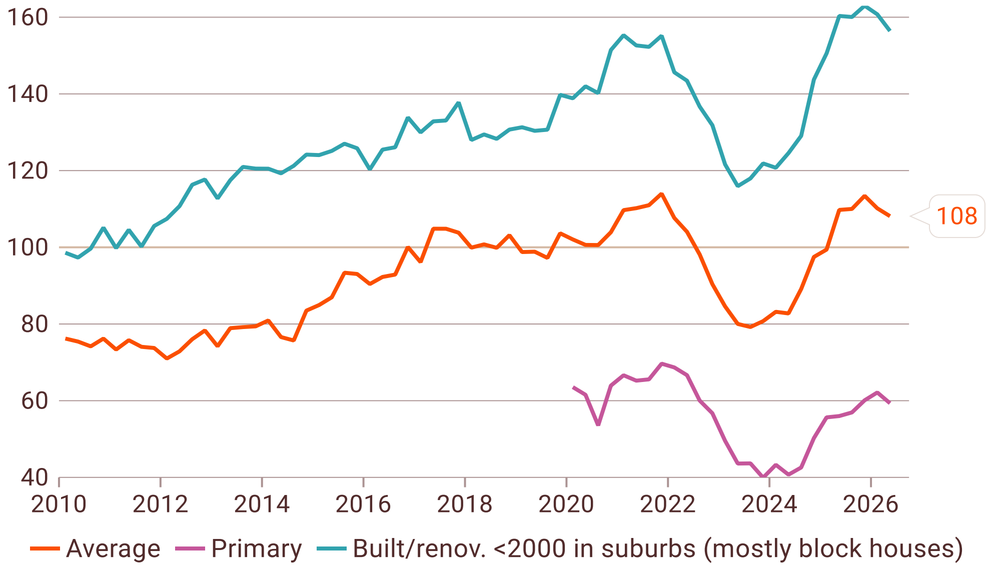
EUR



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

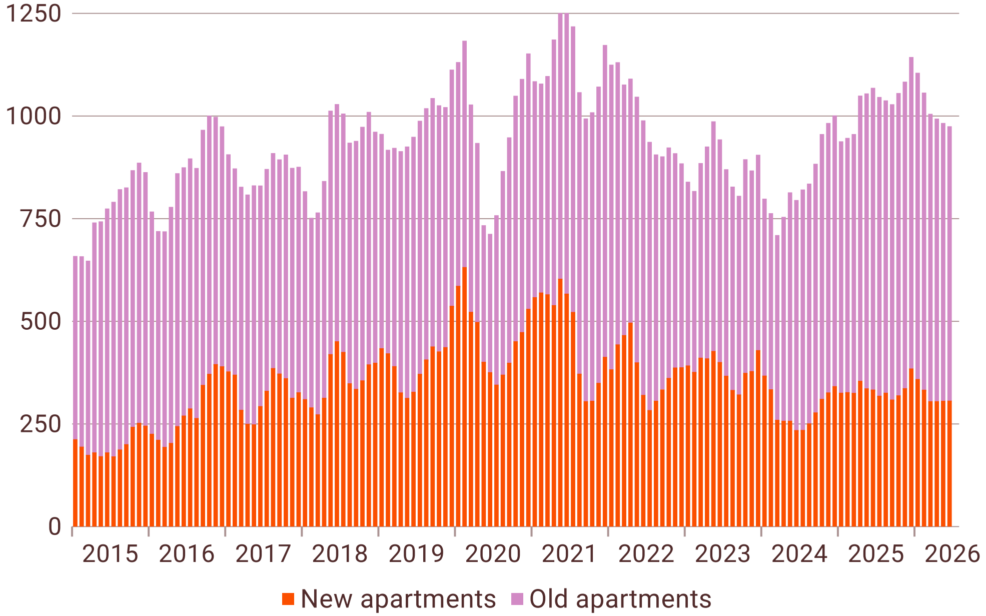
- In the second quarter of 2026, housing affordability continued to deteriorate. For the first time in around four years, annual apartment price growth outpaced wage growth. This was exacerbated by a noticeable quarterly rise in interest rates.
- Compared with 2025, market activity slowed. This likely reflects a mix of factors: steadily rising prices, the deterioration in consumer confidence seen earlier this year, and the fading of previously pent-up demand. In the primary market, however, the slowdown is likely to be short-lived, as many projects are expected to come to market in the coming quarters and reservation levels are solid.
- Average affordability and that of block-type apartments are now below the level of a year earlier. Affordability in the primary market has remained somewhat more resilient due to a slight yearly decline in prices. Overall, housing in Riga stays notably more affordable than in the other Baltic capitals.
- Accelerating price growth for block-type apartments and a structural shift towards other, more expensive secondary-market apartments may push average price growth of apartments in Riga above previous expectations. Even though wage growth is forecast to pick up as well, it may still not be enough to offset faster price growth, further eroding housing affordability.

Vilnius – as price growth accelerates, sales growth is easing

Market activity is increasingly dominated by investment-motivated buyers

Apartment sales in Vilnius

Monthly, 1 quarter moving average



Sources: Swedbank Research & Macrobond

Average yearly growth over different time periods, Vilnius

%

Data to Q2 2026
Sources: Swedbank Research & Macrobond

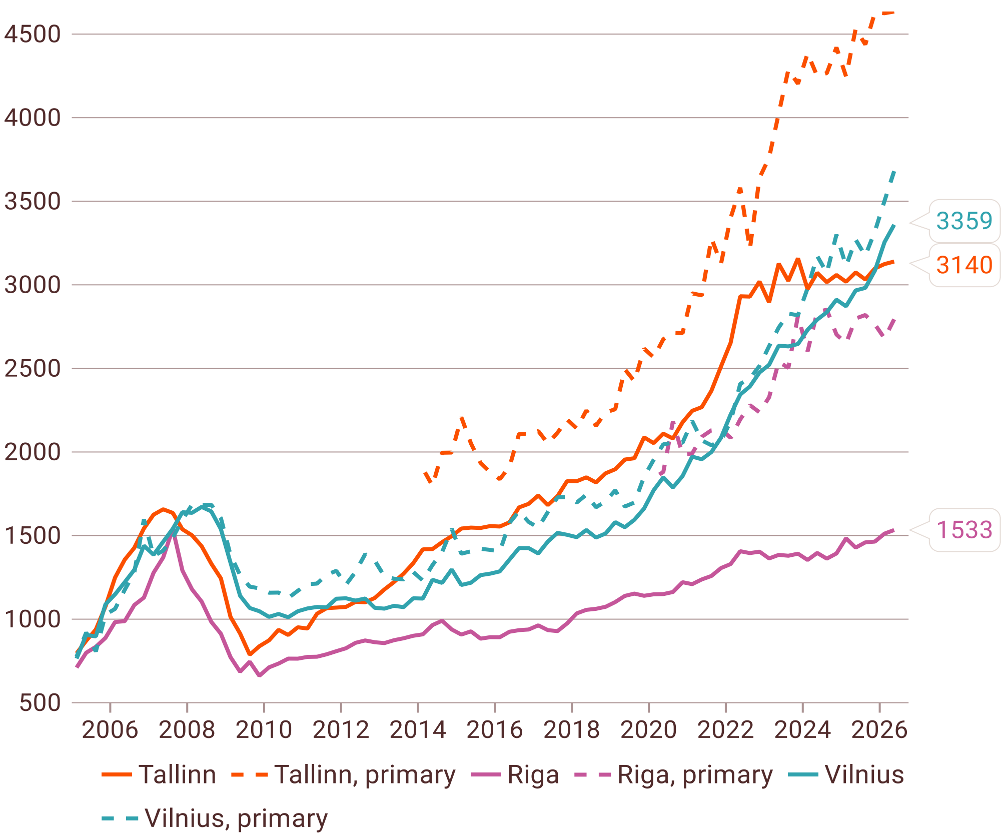
- The number of transactions remained high and above the long-term average, but growth continued to slow. Although some of the withdrawn pension funds were expected to be spent on real estate, the effect so far has been negligible. A lower downpayment requirement for first-time buyers (from 15% to 10% as of August) could provide a fresh tailwind, but no major impact is expected.
- With borrowing costs rising and house-price growth outpacing wage growth, affordability continued to deteriorate. On average, buyers can now afford a 58.6 m² apartment in Vilnius – around 2 m² smaller than in the previous quarter and 20 m² smaller than five years ago. As a result, demand is shifting towards smaller and more affordable apartments located farther from the city centre.
- Over the past decade, net wages in Vilnius have grown somewhat faster than apartment prices, while rent growth has lagged by a considerable margin. This suggests that there is no structural housing shortage.
- The pool of transactions deferred in 2023–2024 now appears to have been largely exhausted, and market activity is increasingly supported by investment-motivated buyers, who, according to the Bank of Lithuania, account for around 40% of all transactions in the capital. At the same time, supply in the primary market remains elevated, with the stock of unsold apartments exceeding 6,000 units. As inventory levels continue increasing and sales slow, price growth should moderate going forward.

Widely differing net wage growth across countries

With Tallinn's wage growth outpacing that of apartment prices

Average apartment price

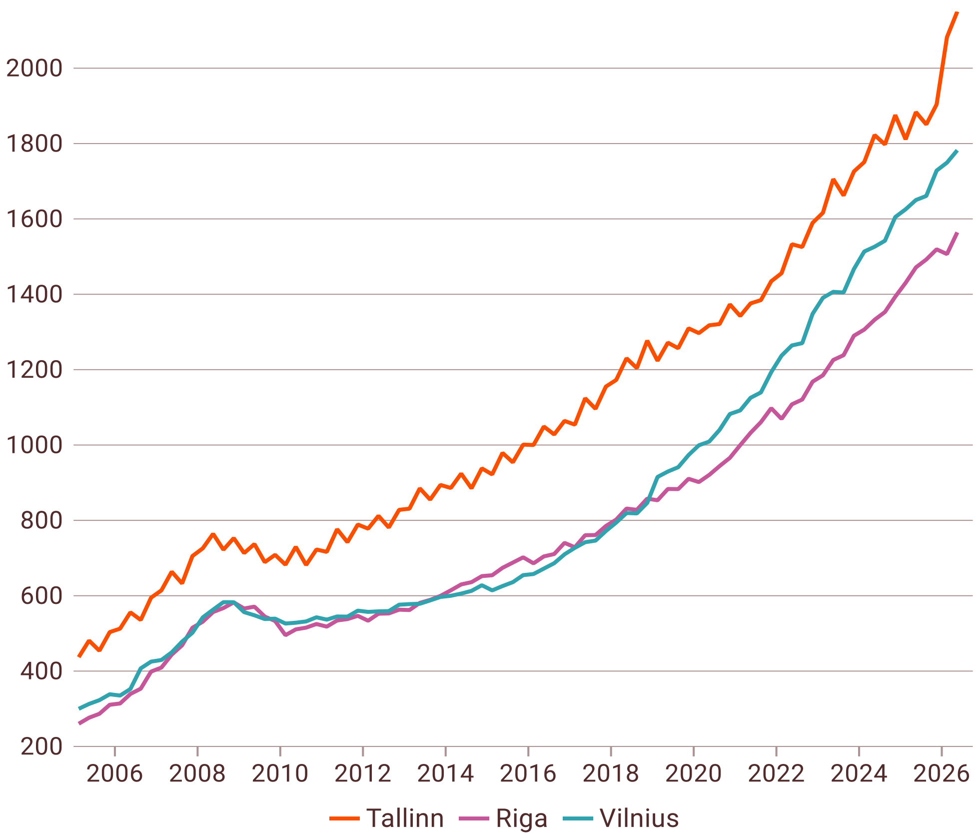
EUR/m²



Sources: Swedbank Research & Macrobond

Average monthly net wage*

EUR

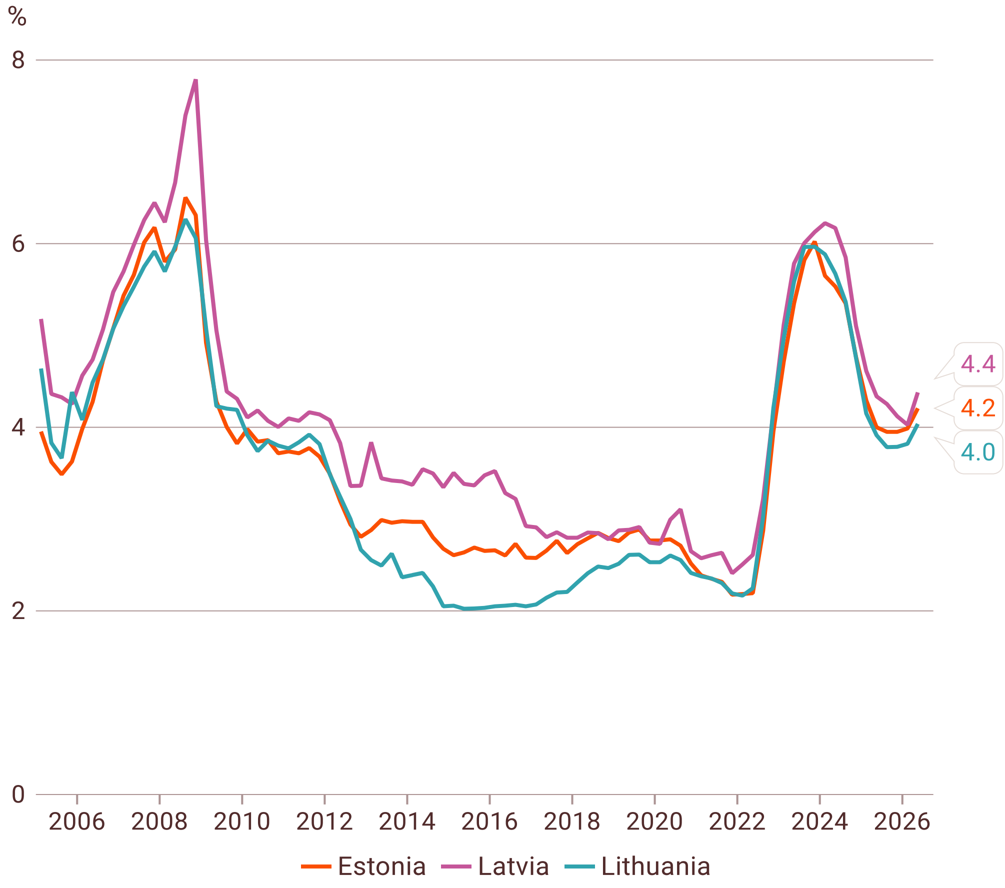


Sources: Swedbank Research & Macrobond

We expect one more rate hike by the ECB in autumn

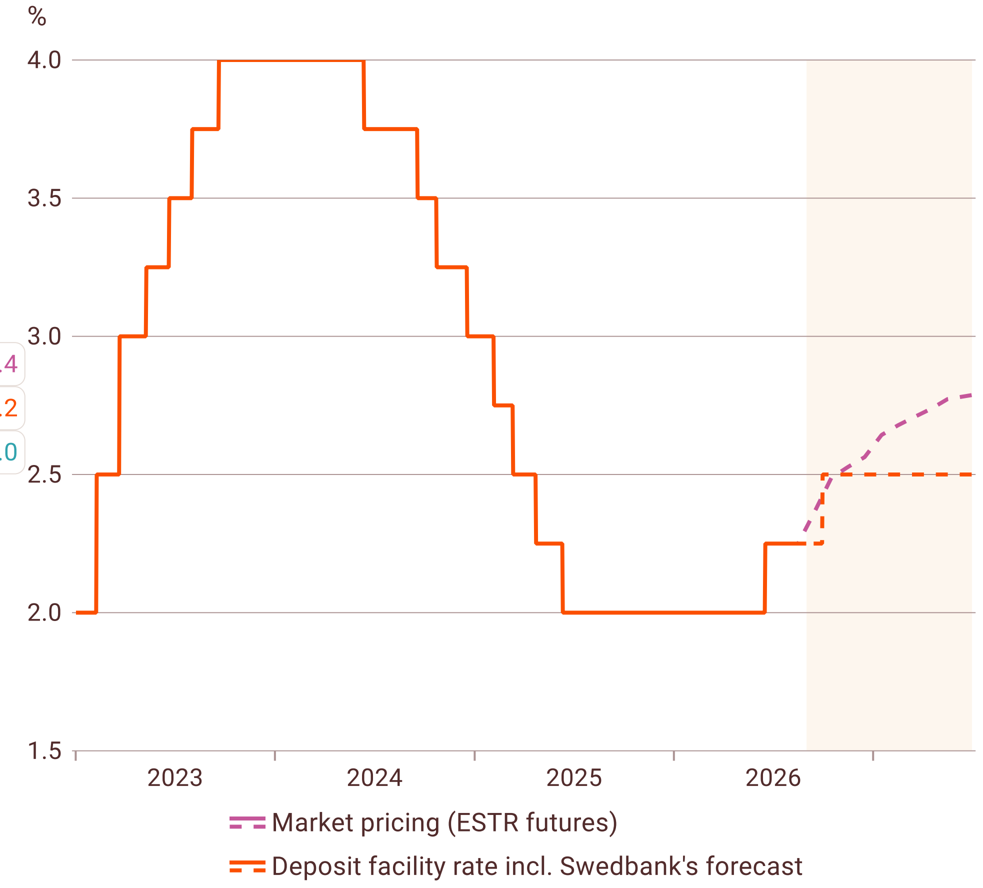
Mortgage interest rates have already priced in the remaining rate hike

Annual % rate of charge for new mortgages to households



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



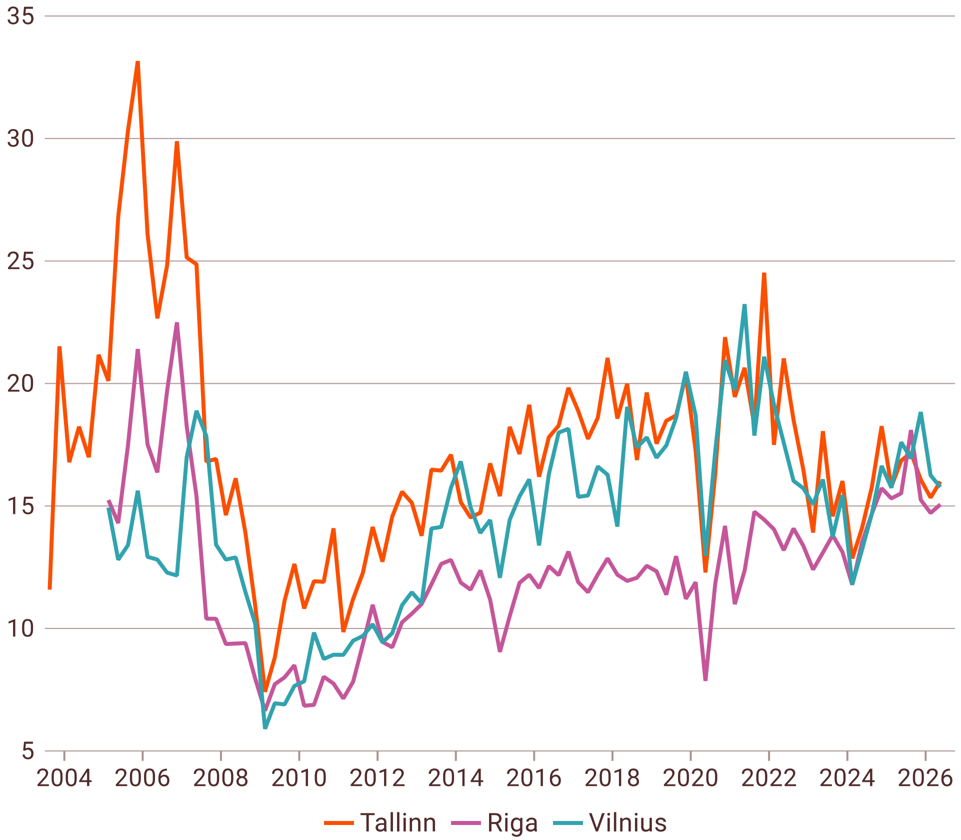
Sources: Swedbank Research & Macrobond

Market activity slower than a year ago

Marked improvement in consumer confidence in Latvia and Lithuania in July

Market activity

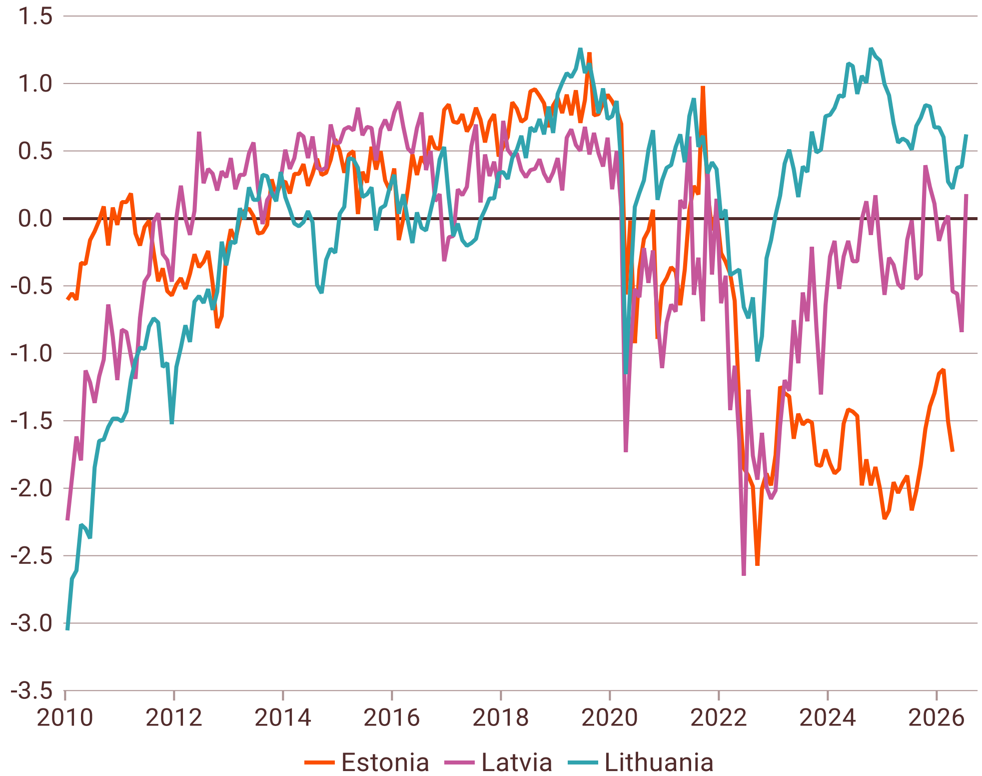
Transaction count per 10K residents, residential apartments



Sources: Swedbank Research & Macrobond

Consumer confidence

Standardised, 0 = long-term average



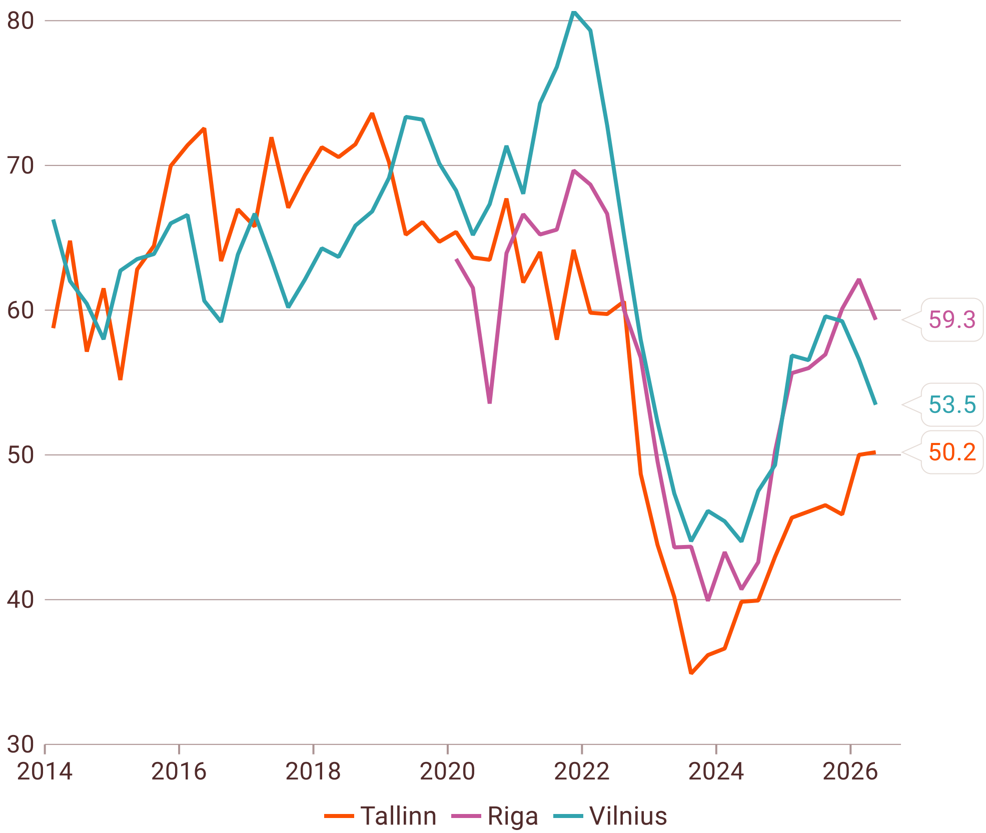
Note: May 2022 - methodology change in Estonia. May 2026 - publication of Estonia's data temporarily suspended.
Sources: Swedbank Research & Macrobond

Affordability in the primary market remains divided

Previous recovery in affordability has supported a rebound in apartment size in Riga

Housing affordability in the primary market

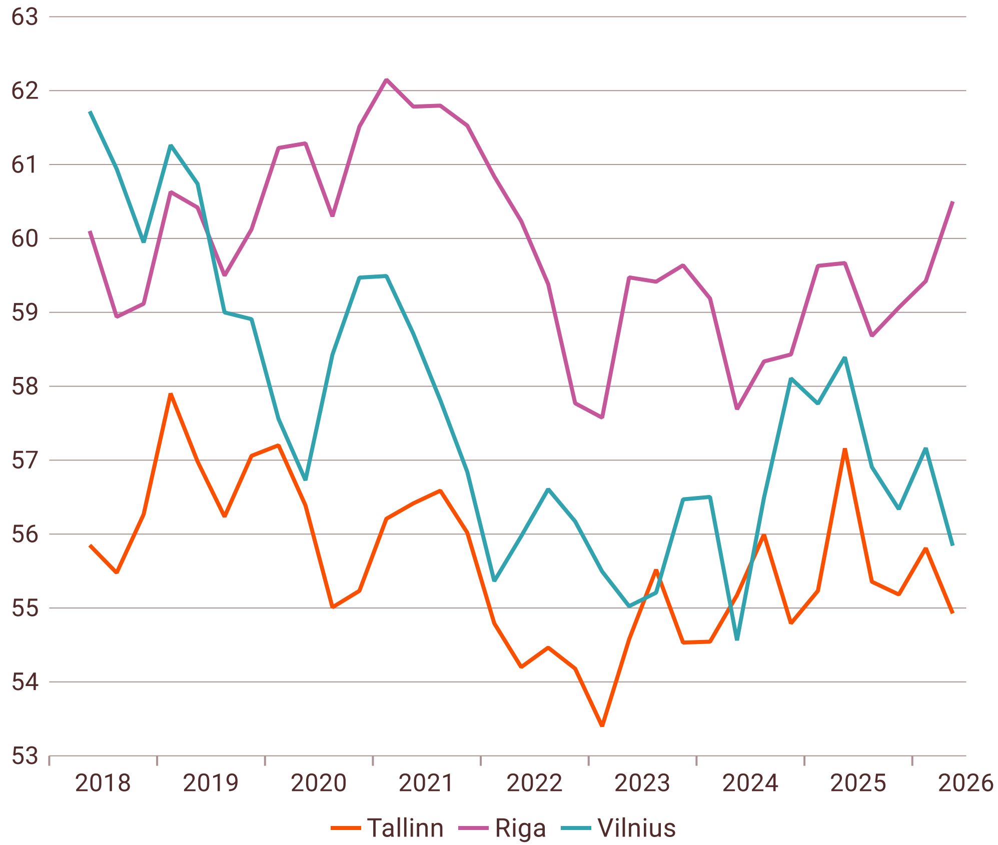
m²



Sources: Swedbank Research & Macrobond

Average apartment size

m², 2 quarter ma, (new Swedbank mortgage contracts)



Sources: Swedbank Research & Macrobond

Baltic Housing Affordability: Methodology

Objective

The Baltic housing affordability measure (henceforth, HA) shows 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 m^2: three-month average apartment transaction price per m^2 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 a household can afford, given it uses 30% of its income to service mortgage payments.

$$\text{HA} = \frac{\text{Average INC}}{\text{NINC}}, \text{ where NINC} = \frac{\text{PMT}}{30\%}$$

where Average INC – 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 m^2 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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