House prices have been rising for a long time. The increase in house and rental prices in Estonia since the mid-2010s is among the highest in the EU, with the strongest growth recorded in Tallinn and its commuter belt. Construction of new dwellings expanded in response but then halted due to a lack of demand caused by higher borrowing and construction costs.

Housing affordability in Estonia has weakened over the past decade. Strong house price and rent growth has contributed to a rising cost overburden, particularly for low-income households and single parents, with single parents at risk of poverty in Estonia allocating one of the highest shares of disposable household income to rent in the EU. Housing vulnerability remains strongly linked to tenure, and is close to the EU average, although substantially higher for owners without a mortgage. Housing availability also remains a concern, including due to labour shortages in construction, limited municipal social housing stock and increasing pressure in urban areas.

By contrast, **energy poverty remains relatively limited on average, affecting primarily vulnerable groups.** The proportion of households unable to keep their homes adequately warm and in arrears on utility bills is well below the EU average. The proportion of households unable to keep their homes adequately warm is however higher among low-income households and households with older adults than the general population.

Estonia's decentralised and market-driven housing policy is impacted by territorial development gaps and low local administrative capacity. Estonia's housing policy is focused on support to homeownership via tax relief and loan guarantees, with minimal provision of housing benefits. Estonia decentralised model for housing development and support faces challenges due to low local administrative capacity although increasing support through digitalisation is envisaged.

Estonia is currently designing a housing policy for 2025–2035 which might touch upon several aspects relevant to housing affordability. Confirmation of this and policy implementation will require monitoring to assess progress, the impact on housing affordability, and support to vulnerable groups.

Housing market developments

A long-standing trend of rising house prices continues. House prices have maintained a pronounced uptrend from the mid-2010s, following their post-2008-09 crisis correction. Nominal house prices increased particularly sharply in 2020-2022, when very low mortgage interest rates, rising household incomes, the release of second-pillar pension funds and the sale of a few unicorn start-ups incentivised households with a willingness to pay a higher price to purchase real estate. Price increases were geographically concentrated, with the strongest growth recorded in Tallinn and its commuter belt, reflecting population concentration and labour market dynamics. By 2025, house prices were 64% higher than in 2020 in nominal terms, corresponding to an increase of about 15% in real terms (Graph A16.1). This price growth slowed in 2023, as tighter financing conditions quickly translated into a higher financial burden due to the prevalence of variable-rate mortgages in Estonia, and economic stagnation discouraged the purchase of real estate. The weaker demand was also reflected by far fewer transactions. Since 2023, however, mortgage interest rates have declined, and lending volumes have expanded. Together with more favourable income taxation as of 2026, this has led to a housing market revival ([266]). The price-to-income ratio has fluctuated and increased over the last 15 years by 24%, one of the highest increases in the EU (Graph A16.1).

([266])The Estonian Economy and Monetary Policy 4/2025.

Graph A16.1: **Housing affordability selected indicators**

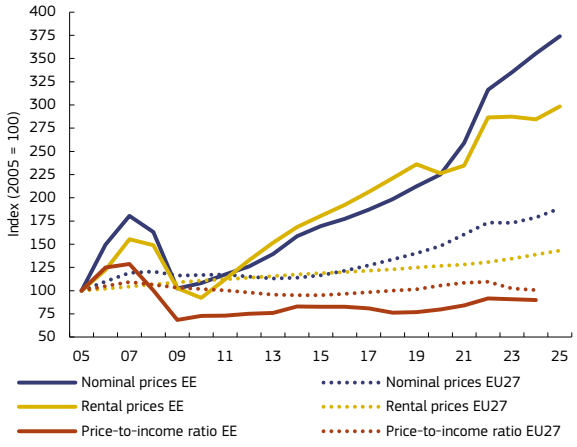
		EU27				EE							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	104.4	103.4		YoY%	-1.0	-1.0	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	93.1	86.0	87.2	YoY%	-6.2	-7.5	1.3
Overburden rate, total	%	9.9	8.8	8.2		6.0	7.6	8.6	8.8	PPS/y	2.7	1.0	0.2
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		28.4	35.8	30.8	37.0	PPS/y	9.9	-5.0	6.2
Overvaluation gap	%					0.4	9.2	10.8	10.6				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	102.4	96.4	94.4	91.3	YoY%	-3.5	-2.0	-3.1
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	452.4	366.1	363.7	438.0	YoY%	-18.7	-0.6	20.4
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	4.0	4.9	4.3	4.6	YoY%	-2.0	-12.2	7.0
Share of ownership	%	70.0	69.1	68.4		82.9	80.7	79.3	79.7	PPS/y	-1.6	-1.7	0.5
Share of people living in overcrowded homes	%	17.7	16.8	16.9		24.2	17.0	18.4	17.9	PPS/y	1.3	1.4	-0.5

Source: Eurostat and European Commission calculations.

Rental prices increased more gradually during the 2010s but rose sharply in 2022. Since 2020, rental prices (including existing and new rental contracts) have increased by 32%, but the steepest increase of more than 20% was recorded in 2022. That year Estonia witnessed a large inflow of Ukrainian refugees. The rental market in Estonia is small, with home ownership at 79.3% (EU average of 68.4% in 2024), while the share of renters is correspondingly lower (19.3%; EU: 30.2%). Although the rent to income ratio is on a decreasing trend after a peak in 2017, the 16% increase between 2010 and 2024 is one of the highest in the EU.

Construction of new dwellings expanded in response to rising house prices but has dwindled over the last years. Housing supply has expanded over the past decade, albeit falling short of satisfying demand in high-growth regions. Residential construction activity increased substantially in response to fast price growth in the early 2020s, as profitability rose. The number of residential building permits issued increased sharply in 2019-2021. However, completions have become constrained by labour shortages, sharply rising construction costs and more stringent financing conditions for developers. The number of building permits issued has therefore been falling during the last few years, suggesting that new housing supply has become weaker. Meanwhile population growth has become increasingly concentrated in certain areas, exacerbating regional disparities. Tallinn and Tartu keep experiencing high demand and insufficient supply, while rural Estonia faces excess supply and housing quality deterioration. The housing construction gap for the decade till 2035 (based on population and construction projections) is estimated at 15 300 dwellings, with the biggest investment needs concentrated in the capital city metropolitan region ([267]).

Graph A16.2: **House prices, rents and price-to-income evolution in EE and EU27 since 2005**



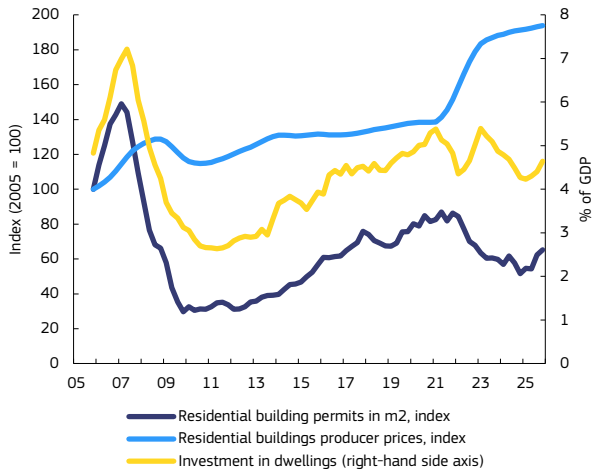
Source: Eurostat

Older buildings are in need of renovation. Due to a large stock of Soviet-era buildings, Estonia has sizeable investment needs related to energy efficiency retrofitting, climate adaptation and urban infrastructure. Up to 14 000 apartment buildings, accounting for a total area of 18 million m^2 will need to be fully renovated (defined as an upgrade to at least energy class C by 2050, considering (i) the number of residential buildings currently in use; (ii) the volume of renovations completed to date (3 000 apartment buildings with a total area of 5 million m^2 in 2020); (iii) the estimated residential building abandonment rate). In addition, Estonia intends to use the Social Climate Fund in particular for housing renovation, allocating substantial funding to the renovation of apartment buildings to reduce

([267])Balouktsi et al. (2026) Housing investment needs in the EU. JRC Technical Report 144419.

energy costs and improve living conditions for vulnerable households. Public support schemes and EU-funded renovations therefore play an important role but remain limited in scale (see Annex 9).

Graph A16.3: **House supply indicators in EE since 2005**



(1) 4-quarters moving sums (averages for prices)
Source: Eurostat

Productivity in construction is weak. The Estonian construction sector is characterised by 28% lower productivity (gross value added per hour worked) than the EU average, despite a gradual improvement over the previous decade. Costs have risen particularly sharply since 2021 due to rising prices of materials (many previously sourced from Russia), supply chain disruptions and increasing wages. As a result, in 2024, construction producer costs were 38% higher than in 2020 and nominal unit labour costs in the construction sector were 62% higher – one of the highest sectoral increases in the EU (see Annex 5). Because of these sharp increases in costs and prices, combined with higher borrowing costs, the main factor limiting construction activity in 2024-2025 was lack of demand.

Structural policies

Estonia is currently designing a comprehensive housing policy for 2025–2035. It might touch upon several aspects (taxation, spatial planning, funding, development of affordable rental housing, measurement and monitoring) relevant to housing affordability and studied in this annex. Confirmation of this and policy implementation will require monitoring to assess progress, the impact on housing affordability, and support to vulnerable groups.

Estonia's housing policy is focused on support to homeownership via tax relief and loan guarantees, with minimal provision of housing benefits. Several tax relief schemes were recently reformed. Mortgage interest tax relief, which had encouraged households to take on more debt, driving demand and potentially increasing house prices, was abolished in 2024. Residential land taxation rates in Estonia are set by municipalities (0.1%–1% of the land's value), which can provide incentives to occupy the property (the homeownership tax incentive has not been set based on the surface area since 2026 but as an absolute figure – maximum EUR 1 000) ([268]). Estonia's tax system still raises very little revenue from property taxes, reflecting Estonia's approach of taxing land rather than property. While residential land taxation can provide a first incentive to activate the land, exploring a phased-in tax on unoccupied residential property could further discourage owners from leaving their properties vacant in areas under housing pressure (see Annex 3). Housing support is tied to the subsistence allowance; there is no separate housing allowance. Although social housing has increased in recent years, it only accounted for around 1.1% of the housing stock in 2017, compared with an OECD average of about 7%.

Estonia decentralised model for housing development and support faces challenges due to low local administrative capacity although increasing support through digitalisation is envisaged. The state provides public funding support (subsidies, guarantees, loans) while local authorities are responsible for housing support, spatial planning and land policy implementation. The OECD recently pointed out significant limitations ([269]), such as the lack of policy coherence between national and local levels and the low administrative capacity of local authorities. The creation of *Maa-ja Ruumiamet* (Land and Spatial Development Board) in 2025, harnessing digitalisation, aims to rationalise and

([268]) Land tax | Estonian Tax and Customs Board.

([269]) Adapting land use and spatial planning to shrinkage in Estonia: Shrinking Smartly in Estonia | OECD, 2022

foster best practice, facilitate access to expertise and improve implementation of planning decisions. This reform can build on Estonia's fully digitalised building permit system, which allows the same project to be evaluated simultaneously by all public authorities. Lastly, according to the World Bank, Estonia was among the most performant Member States as regards construction regulation ([270]).

Estonia's housing policy is also characterised by the search to attenuate territorial development gaps. These gaps pose a significant challenge for Estonia, reflected for housing in the proportion of vacant housing units in rural areas from 16% in 2010 to 25% in 2024 and an annual abandonment rate of 0.7%), representing a worrying trend (see Annex 18). Low incomes and low property values in rural areas also hinder investment in the renovation of the existing stock to prolong its duration. Several measures have been put in place, such as a specific co-loan scheme without collateral for households, or state financial support for municipal build-to-rent schemes in rural areas. Complementary support from EU funds was also directed to municipalities, with EUR 23.4 million supporting the construction of housing for people in need of assistance in 2023. In the previous programming period, an EU-co-financed programme (around EUR 9.4 million) also supported the adaptation of over 2 000 homes for persons with disabilities. Estonia is also working with the European Investment Bank on a major project (1 000-1 500 affordable new rental dwellings) outside the main cities to balance regional development.

Vulnerable groups

Housing affordability pressures are particularly pronounced for low-income and single-parent households. In 2024, while 8.6% of the population had housing costs exceeding 40% of disposable household income (slightly above the EU average of 8.2% and 3.7 percentage points (pps) higher than in 2022), this rate rose to 26.8% among single parents, well above the EU average of 14% ([271]). Among people at risk of poverty, the housing cost overburden rate also increased sharply by 10.7 pps to 29.6%, reflecting limited access to affordable housing. Single parents at risk of poverty in Estonia allocate one of the highest shares of disposable household income to rent in the EU (46.7% vs 32.3% in 2024), up significantly from 29.3% in 2015. Rising housing costs have contributed to a deterioration in housing conditions, with the share of households living in overcrowded dwellings increasing to 18.4% in 2024, 5.7 pps higher than in 2020.

Housing vulnerability in Estonia is closely linked to housing tenure and dependence on municipal support, with tenue status strongly correlated with the risks of poverty and social exclusion. In 2024, the at-risk-of-poverty-or-social-exclusion (AROPE) rate was lowest among homeowners with a mortgage or loan (8.1%; EU: 9.6%), while it was substantially higher among owners without a mortgage (23.5%; EU 18.4%). Tenants renting at market price recorded an AROPE rate of 31.2% (EU: 30.8%), rising to 41.2% among those renting at a reduced price or free of charge (EU: 38.4%). The at-risk-of-poverty (AROP) rate among tenants stood at 29.3% (EU: 25.6%), compared with 19.1% among homeowners (EU: 12.7%).

Housing affordability pressures are particularly pronounced in large urban areas. A recent study led by the Ministry of Climate found that the availability of affordable housing was limited in the urban regions of Tallinn, Tartu and Pärnu ([272]). Housing prices and rents have increased significantly faster than incomes, exceeding the average financial capacity of households, with particularly adverse effects on young people and low-income households. For this sector of the population, this trend contributes to spatial inequalities, encourages outward migration from city centres and delays household formation and housing-related investment. In contrast, many households in rural areas are locked into housing with a very low residual value.

([270])Housing in the European Union: Market Developments, Underlying Drivers, and Policies, 2025, p 62.

([271])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([272])Affordable and accessible housing policy analysis: Taskukohane eluase_Eesti_11-10.pdf.

For older persons in Estonia, housing challenges are closely linked to owning an ageing home and high poverty risks impeding capacity for investment in renovation. Older people are more likely to remain in long-standing owner-occupied dwellings, many of which were built several decades ago and are not adapted to accessibility or energy-efficiency needs. Older-age poverty risks are particularly pronounced among single-older-person households, which can limit the ability to cover maintenance, renovation and energy costs (see Annex 6).

Energy poverty remains relatively limited. The proportion of households unable to keep their homes adequately warm stood at 3.6% in 2024, well below the EU average of 9.2%, while arrears on utility bills were also lower than the EU average (5.7% compared with 6.9%). However, the proportion of households unable to keep their homes adequately warm is higher among low-income households (6.7 %) and households with older adults (7.9 %).

Municipalities play a key role in housing support, but with limited capacity. Targeted support is provided through emergency shelters, temporary accommodation, day centres, which offer basic services such as meals, hygiene facilities and social work support, and general housing-related benefits. High housing development prices constrain municipal([273]) investment, which the current level of state financial support does not compensate. In 2023, 14 795 people used municipal dwelling services. The most recent partial homelessness count, conducted in 2021, identified just over 1 000 homeless persons. In 2023, 1 836 people stayed in emergency accommodation. Persons with disabilities have among the highest poverty rates (see Annex 12). Although they represented 12.9% of social housing residents in 2021, limited data on affordable and accessible housing restricts the assessment of how effectively municipal social services meet their housing needs across regions.

([273])Affordable and accessible housing policy analysis Taskukohane eluase_Eesti_11-10.pdf