MSC INTERNATIONAL ACCOUNTING & FINANCE · DUBLIN BUSINESS SCHOOL

Beyond Inflation: Unravelling the Macroeconomic Drivers of Dublin Residential Property Prices

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1 Introduction

Dublin's housing market has undergone profound changes since the global financial crisis, through economic recovery, the COVID-19 pandemic and subsequent inflationary tightening. Housing serves simultaneously as an essential household need, a store of wealth and mortgage collateral.

Against persistent affordability pressures and constrained housing supply, it is important to distinguish general consumer-price inflation from the wider forces shaping residential values. Interest rates influence financing costs, while earnings and employment affect purchasing power and mortgage eligibility. Planning permissions also signal potential future supply, although new housing can take years to materialise.

This study examines whether inflation is independently associated with Dublin housing prices after accounting for monetary conditions, earnings, unemployment and dwelling permissions. Quarterly data for 2008–2025 is integrated with interviews.

2 Background & literature

Fama and Schwert (1977) suggest housing can hedge inflation as rents and replacement costs rise, although nominal gains may not preserve purchasing power. Poterba (1984) explains how interest rates increase ownership costs and restrict mortgage affordability. Earnings and employment security can strengthen demand, while unemployment weakens confidence and credit access. Housing-supply theory shows that limited serviced land, planning delays and construction constraints can turn demand into higher prices rather than more completed homes. Evidence on inflation's independent role remains mixed. This study addresses the Dublin-specific gap by examining CPI together with ECB rates, earnings, unemployment and dwelling permissions across distinct economic periods. Importantly, permissions measure potential future housing supply, not homes already delivered.

3 Aim & research questions

This study examines whether consumer-price inflation independently relates to Dublin residential property prices during 2008–2025. It compares inflation alone with models controlling for ECB interest rates, earnings, unemployment and dwelling permissions, then assesses robustness and changing economic regimes through professional evidence.

1. **Is inflation independently associated with Dublin housing prices?**
   Compare standalone and controlled estimates, then test whether the CPI relationship survives robustness checks.
2. **Which factors provide the strongest and most consistent explanation?**
   Assess labour-market, earnings, credit and development-pipeline factors across alternative models.
3. **Does the relationship change across economic periods?**
   Assess whether relationships remain stable across crisis, recovery and pandemic/inflation periods.



4 Dublin and National Residential Property Market — Evidence Comparison



National graphic: supplied CSO infographic, reproduced uncharged. National and Dublin figures may refer to different 2025 reference dates.

Source: CSO, Residential Property Price Index, December 2025.

WHY DUBLIN DIFFERS

Dublin's concentration of employment, population and services creates stronger housing demand than the national average.

01 STRONG DEMAND
As Ireland's main employment and education hub, Dublin attracts workers, students and households. Concentrated opportunities sustain competition for a limited housing stock.

02 AFFORDABILITY
Higher prices require larger deposits and mortgage commitments. Earnings and job security affect borrowing capacity, while inflation and interest rates squeeze households' real purchasing power.

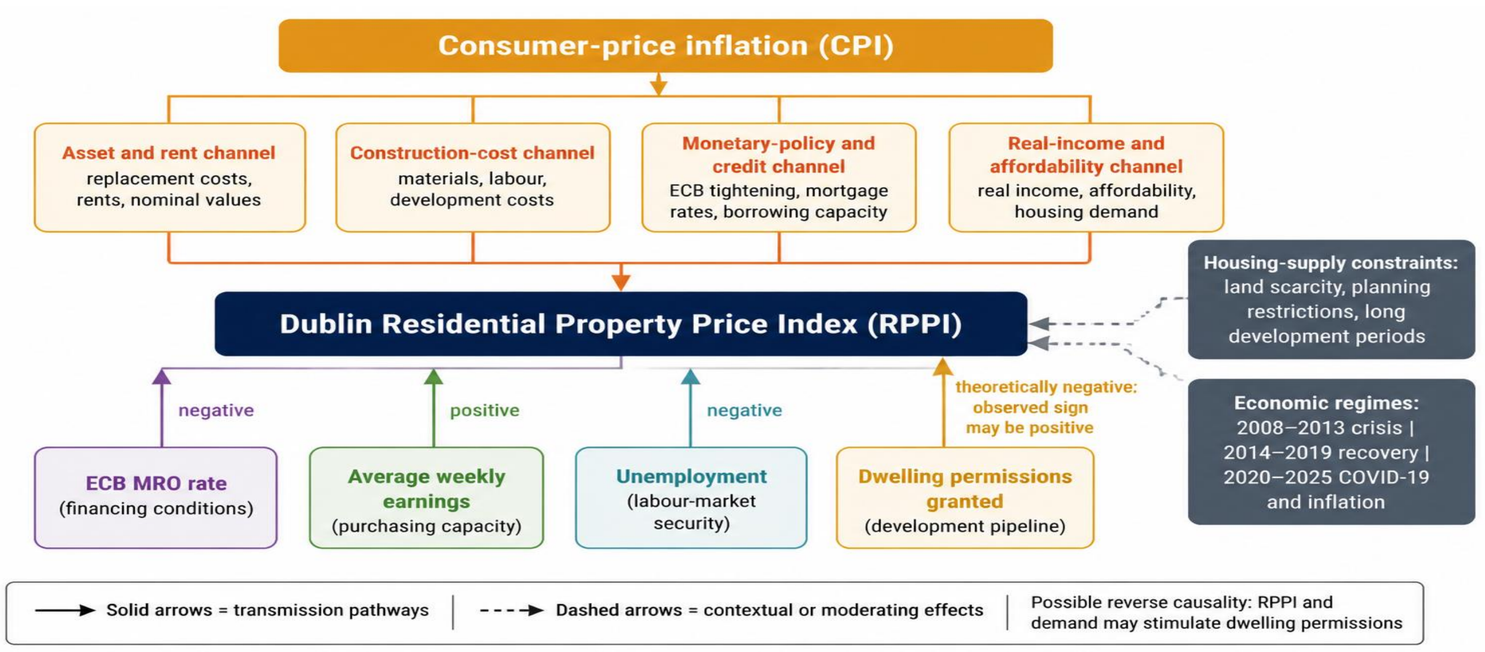
03 RESTRICTED SUPPLY
Limited serviced land, infrastructure, planning delays and construction costs slow new delivery. As a result, stronger demand can lift prices before additional homes become available.

DUBLIN | DECEMBER 2025

Residential property price indicators

110.0%	**OF 2007 PEAK** — Dublin RPPI versus Feb 2007 peak
€500,000	**MEDIAN PROPERTY PRICE** — 12 months ending December 2025
+5.6%	**ANNUAL PRICE GROWTH** — Year-on-year, December 2025

5 Conceptual framework



06 Methodology

An explanatory-sequential mixed-methods design combines CSO and ECB quarterly data with six purposively selected professional interviews. Dublin RPPI is modelled against CPI, the ECB MRO rate, average weekly earnings, unemployment and national dwelling permissions. Quantitative analysis progresses from descriptive statistics and OLS to ADF stationarity checks, residual diagnostics, Newey–West HAC errors, first differences and Chow stability tests. Interviews contextualise affordability, credit and housing-delivery mechanisms; the models identify associations, not causality.

N = 72 quarters · 2008 Q1–2025 Q4 · Dublin RPPI

1 · Quantitative
OLS, diagnostics, four-lag HAC, first differences, Chow tests

2 · Qualitative
6 interviews: valuer, agent, surveyor, mortgage broker

3 · Integrated interpretation
Do the experts support, qualify or challenge the statistics?

Inflation | ECB rate | Earnings | Jobs | Permissions

7 Variable ranking

Integrated ranking combines robust modelling and interviews. Bars show absolute correlation, not a pooled ranking score.

1	Unemployment	-0.906
2	Supply / permissions	+0.716
3	Earnings / affordability	+0.838
4	ECB MRO / credit	+0.502
5	Inflation / CPI	+0.441

Rank combines interviews and robustness; bars depict |r|.

8 Results & key findings

ALONE	CONTROLS	ROBUST
+ 3.948	− 0.693	p = .089
p < 0.001	p = 0.018	Δ p = .739

FINAL RESULT
Inflation's influence is conditional; unemployment is the most consistent statistical association.

RQ1 — IS INFLATION AN INDEPENDENT PREDICTOR? Inflation appears positively related to Dublin property prices when analysed alone. Its estimated direction reverses after adding employment, earnings, ECB rates and permissions. HAC correction and first differences do not support a stable independent CPI association.

RQ2 — WHAT MATTERS MOST? Unemployment provides the strongest and most consistent inverse statistical relationship. It plausibly reflects employment security, mortgage access and buyer confidence. Earnings, credit conditions and restricted supply matter but are more sensitive to model specification.

RQ3 — DO RELATIONSHIPS CHANGE OVER TIME? Structural-break tests reject a constant model across crisis, recovery and COVID/inflation regimes. The same macroeconomic indicator can behave differently as credit access and housing scarcity change.

OVERALL: Inflation can increase construction and replacement costs while weakening real household income and mortgage affordability. These offsetting channels make CPI an unreliable standalone explanation; the estimates do not establish causality.

9 Discussion

INFLATION IS CONDITIONAL — The literature's inflation-hedge argument explains why higher rents and replacement costs can support nominal property values. However, the controlled and robust models reveal an opposing affordability channel: inflation erodes real incomes and can coincide with costlier credit. The changed sign and weaker statistical evidence are consistent with competing mechanisms, not proof that inflation is irrelevant.

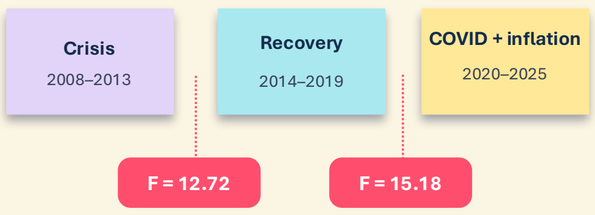
Employment and effective supply

Unemployment is the most reliable statistical correlate. The professional interviews help interpret this pattern: secure jobs support mortgage approval, deposit accumulation and confidence. Earnings alone do not guarantee affordability when prices and living costs also rise. Planning permissions are only a development pipeline; land, finance, infrastructure, construction costs and labour shortages can prevent approvals from becoming completed homes.

Interpretation and policy relevance

INTERPRETATION AND CONTRIBUTION — Regime tests indicate that the same macroeconomic coefficients cannot be assumed throughout the financial crisis, recovery and pandemic/inflation periods. Positive levels associations for rates or permissions may reflect common trends, timing or reverse causality. The Dublin-specific mixed-methods analysis therefore favours an integrated explanation involving employment, credit, real affordability and effective supply. These are observational associations, not causal estimates.

10 Different eras, different rules



Chow tests reject joint coefficient stability at the recovery and pandemic boundaries (both p < .001). This does not imply that every coefficient changed.

11 Conclusion

Unemployment is the most consistently robust factor.

Inflation is economically relevant, but its positive standalone association with Dublin house prices reverses after accounting for other macroeconomic conditions and is not consistently robust to diagnostic adjustments. Unemployment remains the most dependable inverse statistical association. The study therefore supports an integrated explanation combining job security, real affordability, mortgage credit and effective housing supply. These findings are associations rather than proof of causality, and relationships shift across economic regimes.

12 Implications

- **Deliver homes.**
- Real CPI in context.
- Couple costs, real income and rates.
- **Watch jobs first.**
- Monitor supply, credit and rents.
- **Protect buyers.**
- Stress-test shocks and support access.

Policy priority: measure completed delivery, monitor employment risk and assess CPI together with income and credit.

13 Future Research

Future research should investigate the causal mechanisms and dynamic interactions shaping Dublin residential property prices. Advanced models, including ARDL, vector error-correction and regime-switching approaches, could examine short-run adjustments, long-run relationships and structural changes.

Integrating mortgage-credit data, migration, housing-delivery delays and household wealth could deepen understanding of price formation. Comparisons across Dublin submarkets and broader professional evidence could reveal spatial inequalities and improve housing-market forecasting and policy development.

14 References

Fisher (1930); Fama & Schwert (1977); Poterba (1984); Mayer & Somerville (2000); Newey & West (1987). CSO/ECB data. Full bibliography in dissertation.