Agglomeration of Urban Amenities: Evidence from Milano Restaurants

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Abstract

Like many urban amenities, restaurants tend to cluster geographically within cities. Why do restaurants tend to locate near their competitors? Spatial clustering may reflect agglomeration economies arising from search externalities, so that product demand is higher in areas with many restaurants. Alternatively, it may simply reflect the uneven spatial distribution of demand or zoning constraints. To identify the magnitude of agglomeration economies in the restaurant industry, we exploit a change in local regulations in Milano. Before 2004, local regulations required restaurants in Milano to be uniformly spaced, effectively creating a uniform spatial distribution across neighborhoods. The regulation was removed in 2004 by a nationwide law that allowed new restaurants to locate anywhere in the city, irrespective of the location of existing restaurants. Using administrative data on the universe of the city’s retail establishments between 2000 and 2012, we study changes in the spatial distribution of restaurants after the reform, and compare them to changes in the spatial distribution of other retail establishments that were never affected by the regulation. Between 2004 and 2012, some areas of Milano gained restaurants while other lost restaurants. There is no evidence of pre-trends between 2000 and 2004. The spatial distribution of other retail establishments did not change significantly. Consistent with the presence of significant agglomeration economies, the net effect was that restaurants in Milano became much more spatially concentrated after the reform than they were before the reform. Consistent with multiple equilibria, most 2004 observable characteristics of neighborhoods—average quality and price of existing restaurants, residential and commercial property values, crime rates, presence of subway stops, universities, or hospitals—are uncorrelated with the 2004-2012 change in number of restaurants.

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